

# CITY OF ROCHESTER, MINNESOTA



## *2010 Financial Statement Overview*

# **City of Rochester**

## ***Independent Audit for the Year Ended December 31, 2010***

- **Issued unqualified opinion on City's basic financial statements and on separate RPU financial statements**
  - **City issued 2010 CAFR in June 2011 and RPU issued Annual report in April 2011**
  - **City applied for GFOA Certificate for the 2010 CAFR & responded to GFOA comments on 2009 CAFR for which City received the Certificate of Achievement for Excellence in Financial Reporting**
- **Smith Schafer is currently performing Single Audit of 2010 federal grant awards**
- **Audit Committee Meeting in July 2011**
  - **Reviewed results of 2010 audit and Auditors' Responsibility Letter**

# Governmental Fund Types

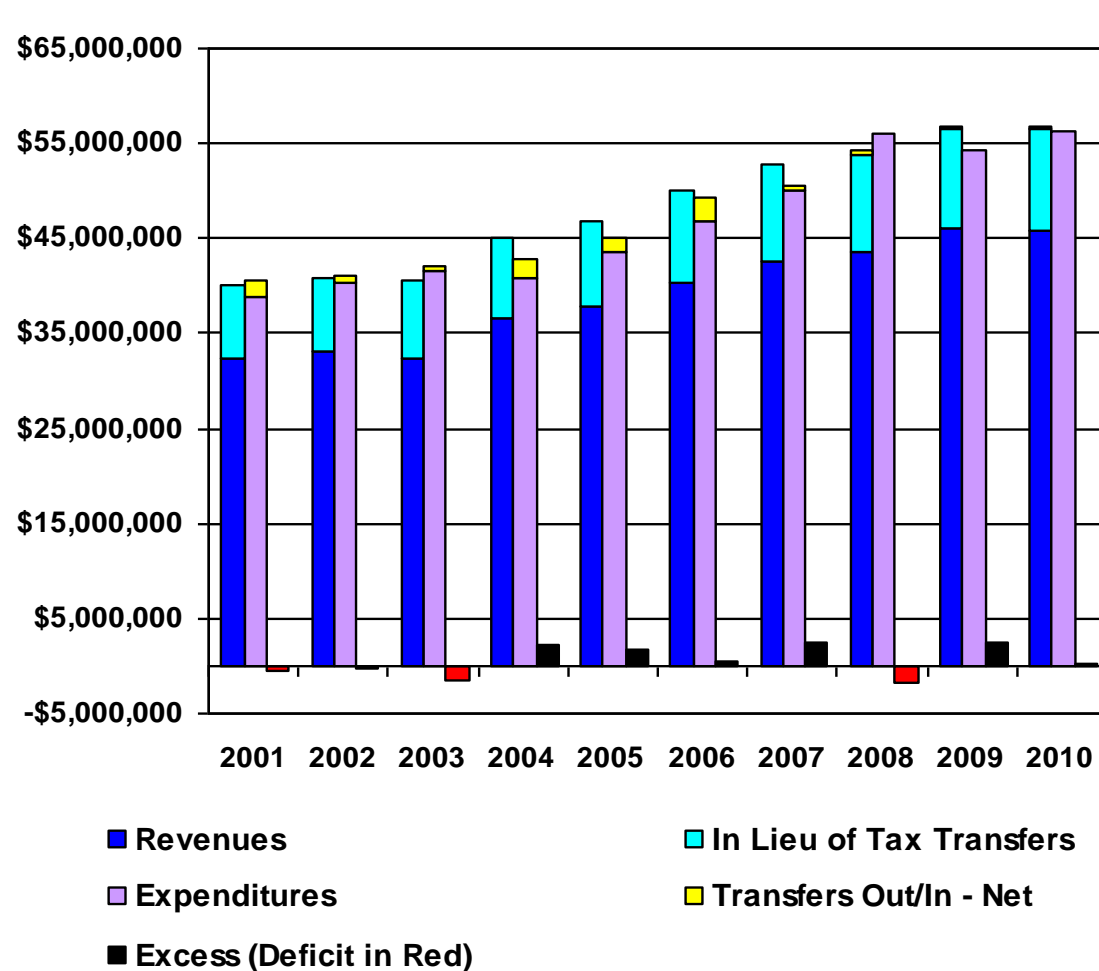
- **General Fund**
- **Special Revenue Funds:**
  - **Library**
  - **Municipal Recreation System**
  - **Edward Byrne Memorial JAG**
  - **Airport Operations**
  - **F.E . Williams Estate**
  - **Transit**
  - **Minnesota Bio Science Center**
  - **Community Development Projects**
- **Debt Service Funds:**
  - **Tax Increment Bonds**
  - **Airport Hangar Construction Notes**
  - **Transportation Sales Tax Note**
  - **Transportation Sales Tax Note of 2009**
  - **Facility Energy Improvements**
  - **EDA Bonds**
  - **Public Works & Transit Operation Center Bond**
- **Capital Project Fund**
  - **Construction Improvement**

# Proprietary Fund Types

- **Enterprise Funds:**
  - **Parking**
  - **Electric**
  - **Water**
  - **Sewer**
  - **Storm Water**
- **Internal Service Funds:**
  - **Equipment Revolving**
  - **Information Technology Revolving**
  - **Self-Insurance**

# General Fund

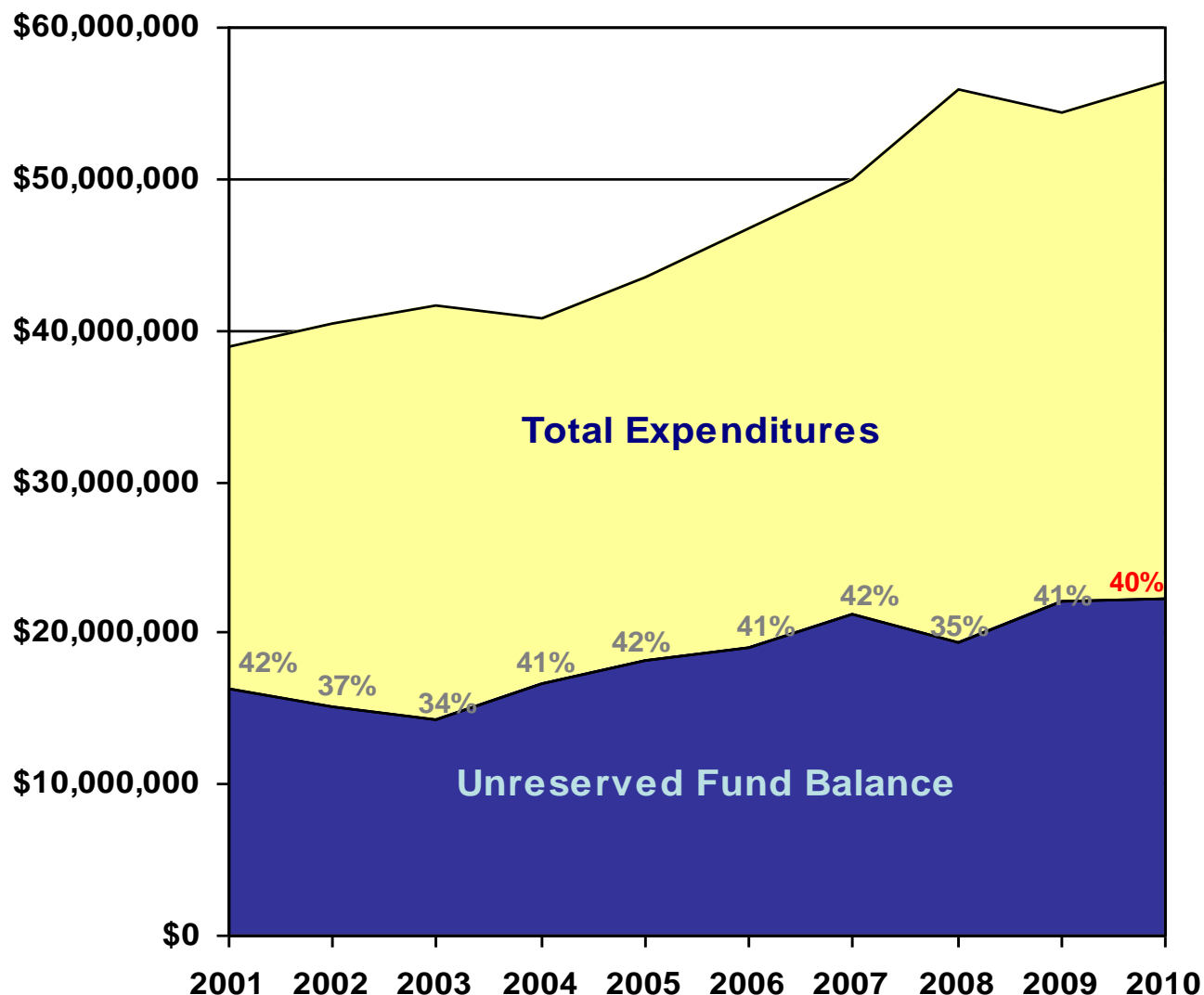
## Revenues and Expenditures



- 2010 Expenditures increased by **\$2,028,649** from 2009 primarily as the result of:
  - Increased equipment/vehicle repairs
  - Increase in street maintenance and paving/overlay costs
  - Positions reinstated during 2010
  - 3.5% wage increase, partially offset by 2010 furloughs
  - Increased cost of election judges
  - Higher snow removal costs
- Revenues decreased **\$326,807** from 2009 to 2010.
  - Total State funding (LGA & Market Value Credits) decreased by \$3.3M
  - General Property Taxes increased \$3.1M.
- Generated a surplus of \$302,807 in 2010
- 2010 In Lieu of Tax received by General Fund:
 

– Electric	\$8,402,361
– Sewer	1,082,487
– Storm Water, Parking and Water	
	<u>1,104,264</u>
– Total	<u>\$10,589,112</u>

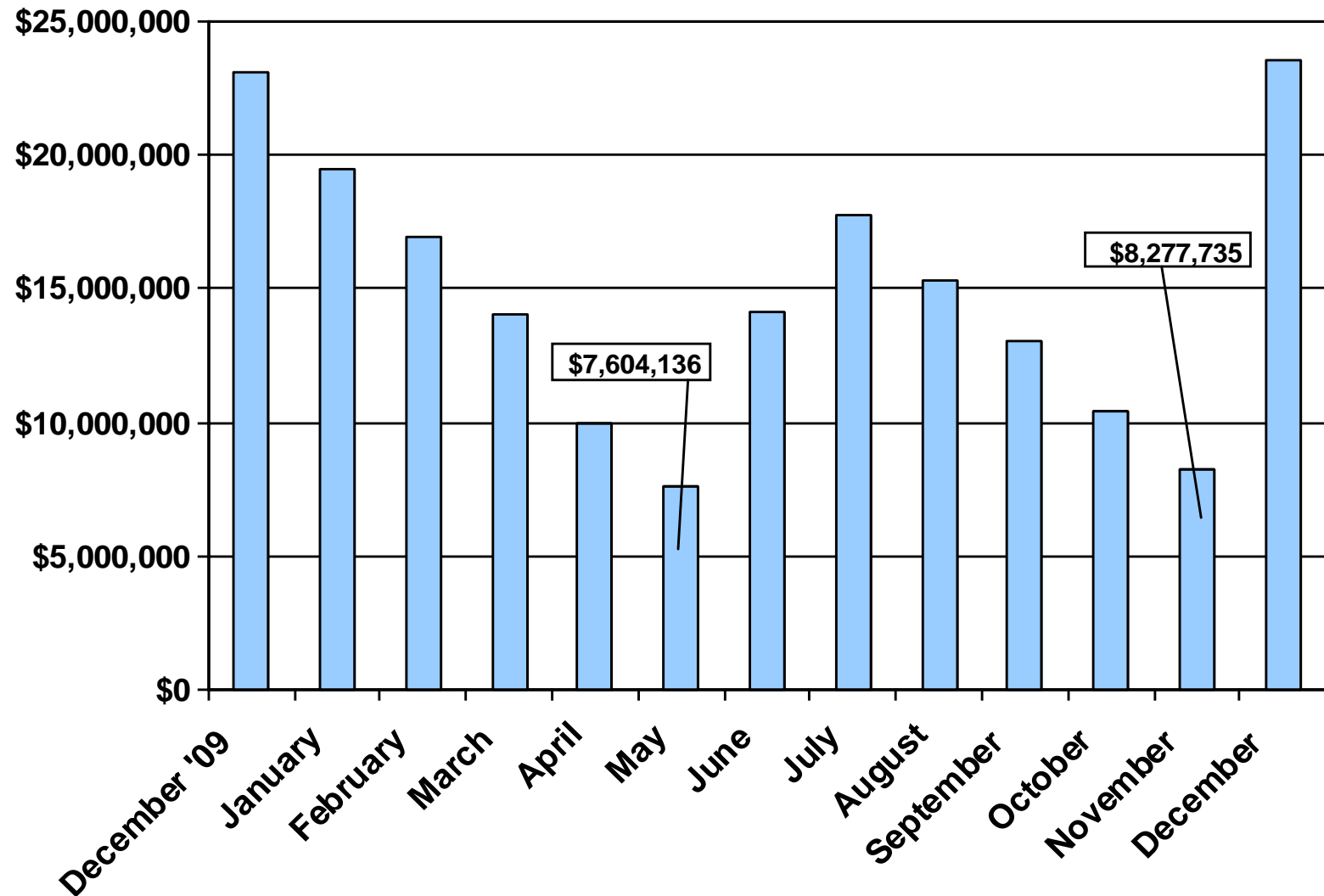
# General Fund Reserves



- General fund unreserved fund balance was **\$22,313,749** at 12/31/10 - expenditures totaled **\$56,375,889** in 2010
- Purpose of Reserves
  - Cash Flow
  - Possible Intergovernmental Revenue Cutbacks
  - Emergency or Unanticipated Expenditures
- Reserve Benefits
  - Favorable Bond Rating
  - Supplement Revenues with Investment Earnings
- State Auditor recommendation is no less than 5 months of expenditures (**41.7%**)

# General Fund

## 2010 Month End Cash and Investment Balances

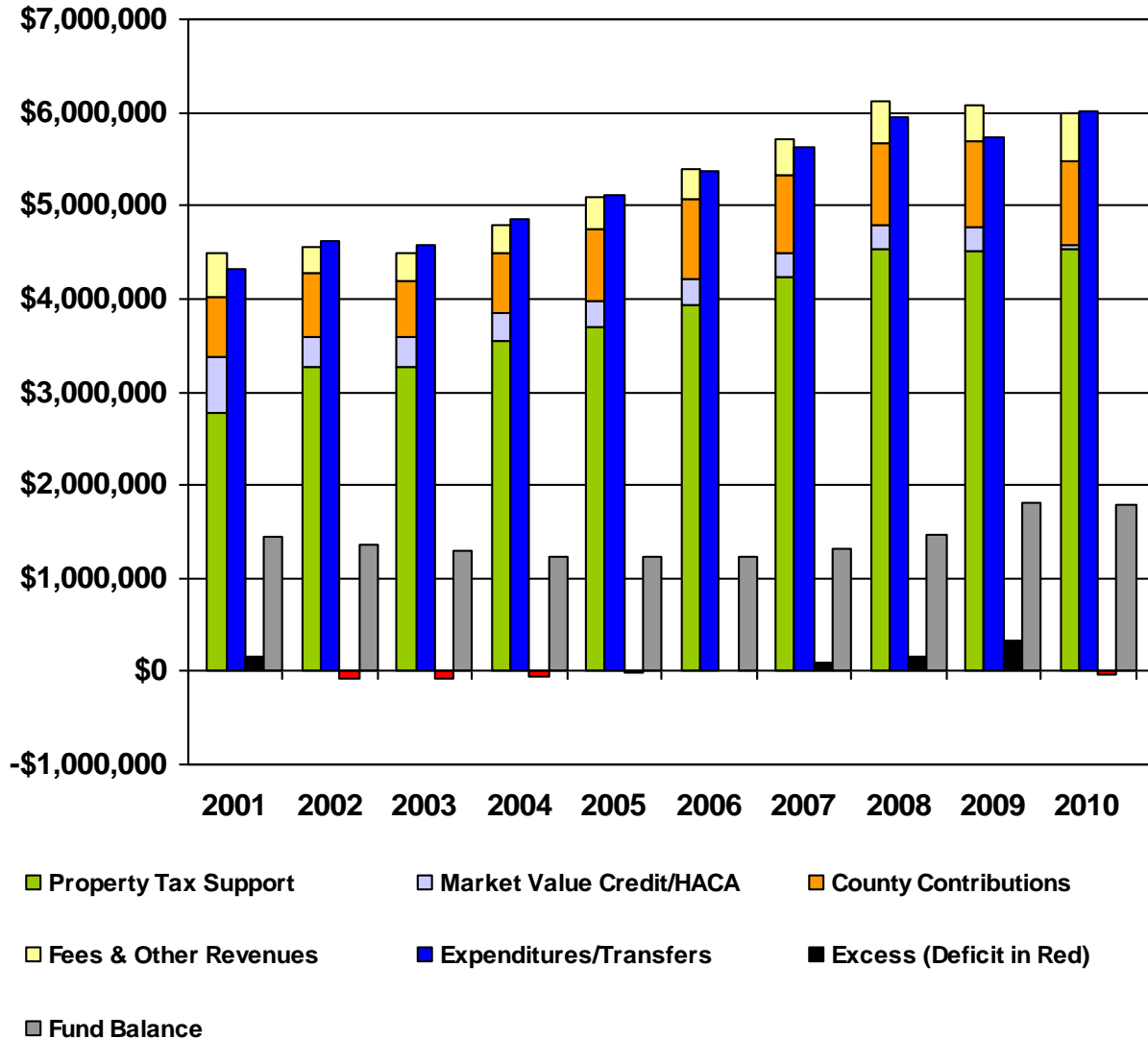


# Special Revenue Funds

- **Library**
- **Municipal Recreation System**
- **Edward Byrne Memorial JAG**
- **Airport Operations**
- **F.E . Williams Trust**
- **Transit**
- **Minnesota Bio Science Center**
- **Community Development Projects**

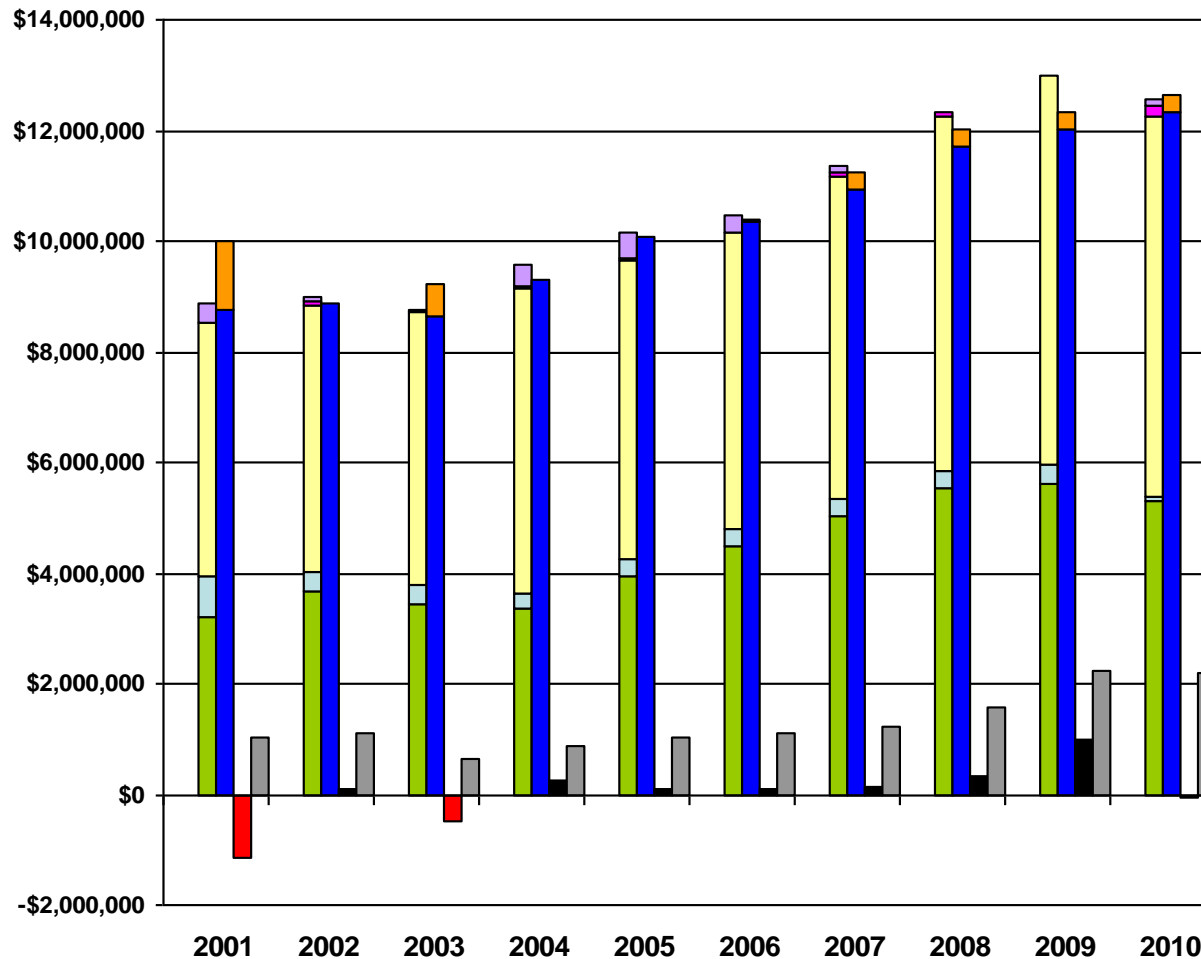


# Library



- Property taxes of **\$4,529,281** were **76%** of Library revenues in 2010
- In 2010, direct Library expenditures exceeded revenues by **\$27,940**, primarily due to Market Value Credit not being paid out as expected
- County contributions totaled **\$894,168** in 2010 which is raised through property taxes levied outside of the City
- Expenditures increased by **\$358,167** in 2010 due to:
  - Higher Travel & Training, Supplies, and Utilities costs
  - Increase in City share of RACE Exhibit cost
  - Increase in Library Media costs
- Unreserved Fund Balance was **29%** of 2010 Expenditures

# Municipal Recreation System

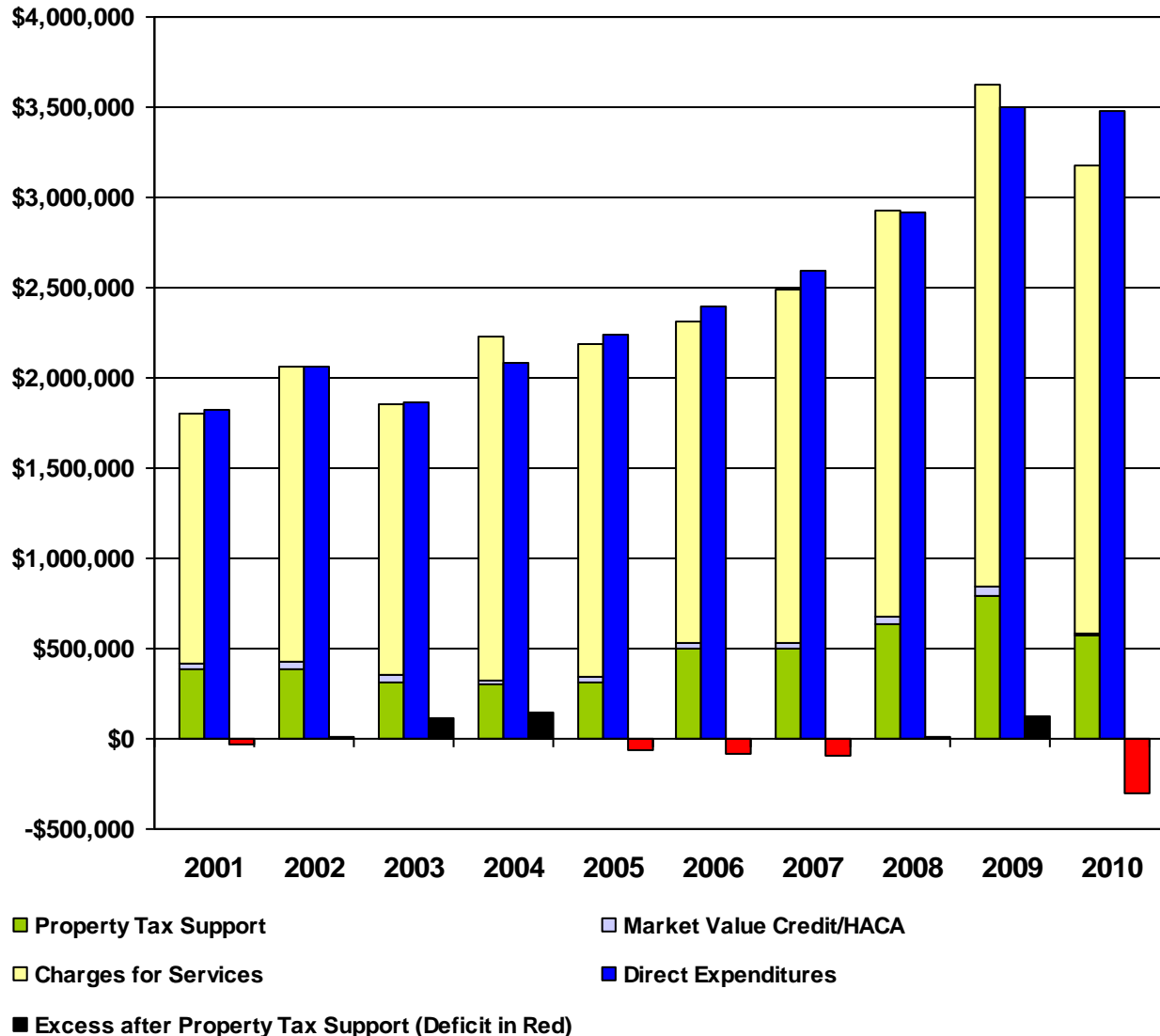


- Property taxes of **\$5,316,769** were **43%** of Municipal Recreation revenues in 2010
- In 2010, direct Municipal Recreation System expenditures exceeded revenues by **\$62,503**, primarily due to Market Value Credit not being paid out as expected
- Unreserved Fund Balance was **17.4%** of 2010 Expenditures
- Fund balance totaled **\$2,182,269** at 12/31/10 (**51%** of fund balance is designated for future compensated absences)

■ Property Taxes      ■ Market Value Credit/HACA      ■ Fees & Other Revenues  
 ■ Intergovernmental      ■ Transfer In      ■ Expenditures  
 ■ Excess (Deficit in Red)      ■ Transfers Out      ■ Fund Balance

# Mayo Civic Center

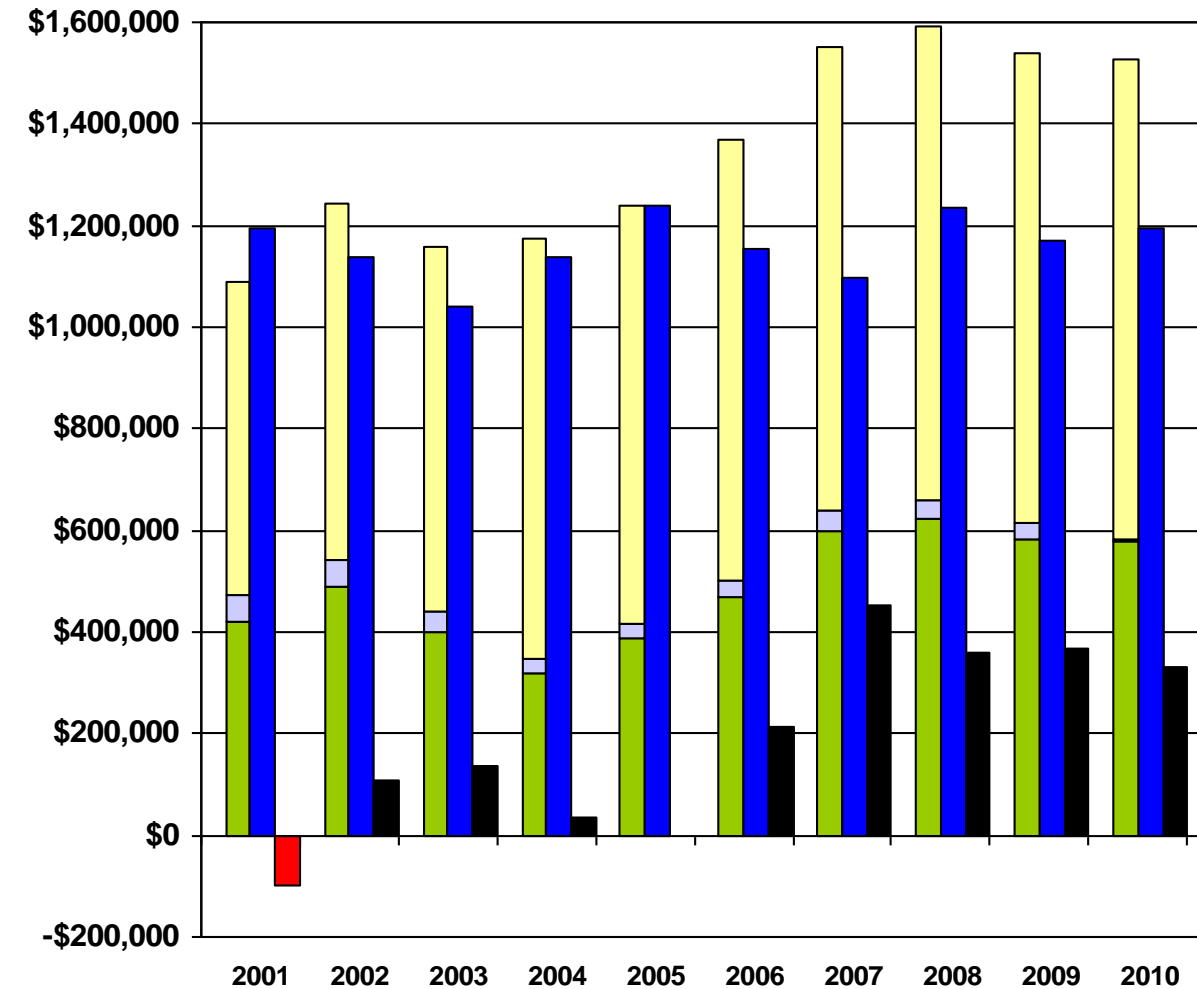
## Charges for Services, Direct Expenditures and Property Tax Support



- Direct expenditures exceeded charges for service revenues by **\$867,420** in 2010, versus **\$674,776** in 2009.
- Mayo Civic Center operations were supported by tax levy of **\$575,562** in 2010
- Rental/User fees & tax levy revenues decreased while expenditures remained steady
- Hotel/Motel tax collections, although not considered a direct revenue of the Mayo Civic Center, totaled **\$3,470,108** in 2010 – The City contributed **\$1,735,054** to the Convention Bureau in 2010

# Recreation Center

## Customer Charges, Direct Expenditures and Property Tax Support

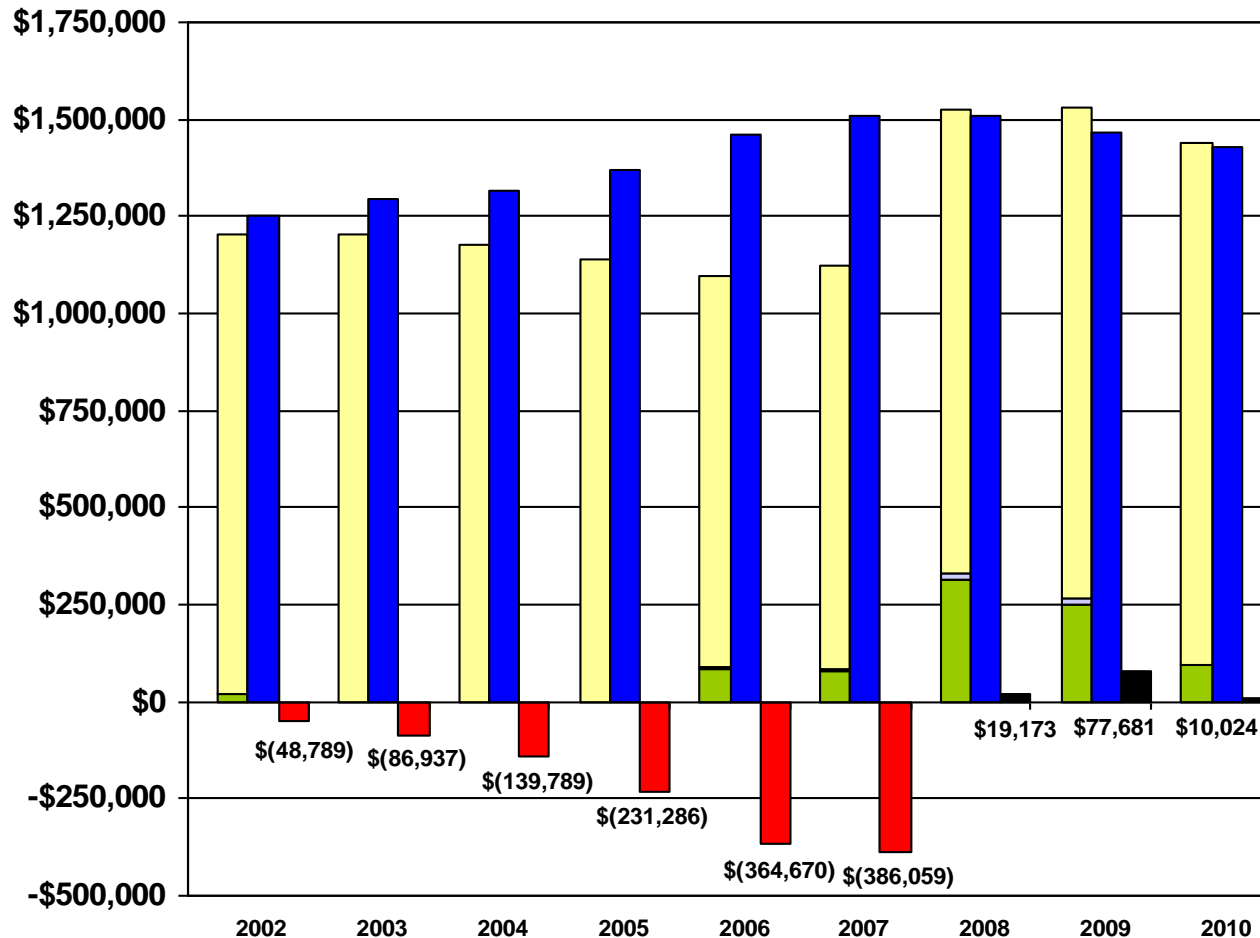


- Direct expenditures exceeded customer charge revenues by **\$248,485** in 2010, versus **\$247,740** in 2009.
- The Recreation Center was supported by tax levy of **\$579,512** in 2010
- Increase in Materials & Supplies of **\$17K** in 2010
- Revenues have been impacted in earlier years by temporary closing of the facility to make needed improvements

■ Property Tax Support
 ■ Market Value Credit/HACA
 ■ Customer Charges
 ■ Direct Expenditures
 ■ Excess after Property Tax Support (Deficit in Red)

# Golf Operations

## Customer Charges, Direct Expenditures and Property Tax Support



■ Property Tax Support

■ Market Value Credit

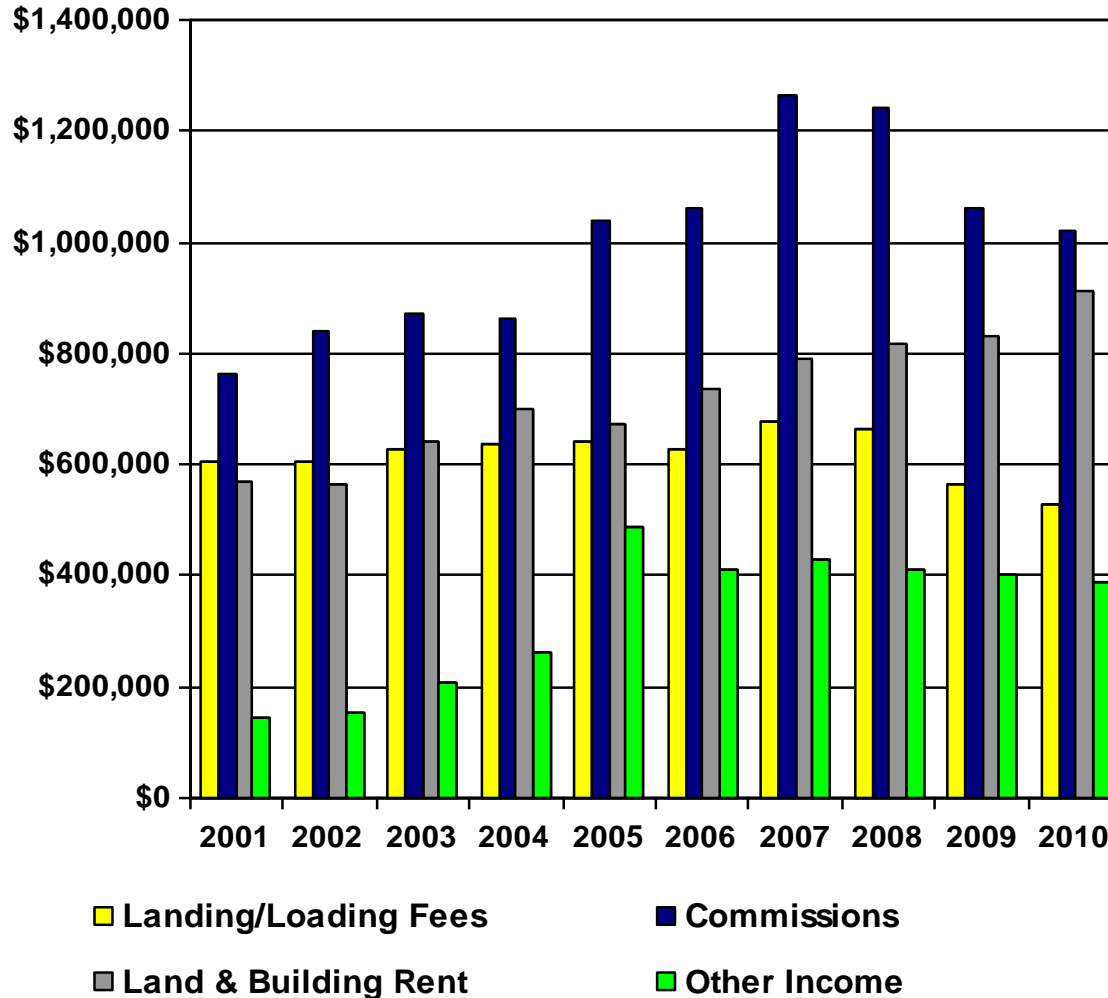
■ Customer Charges

■ Direct Expenditures

■ Excess after Property Tax Support (Deficit in Red)

- Golf Revenues increased **\$67,106** over 2009
- Total expenditures decreased **\$37,463** from 2009 to 2010
- Golf operations were supported by tax levy of **\$94,735** in 2010
- City did not levy for Golf Operations in 2011

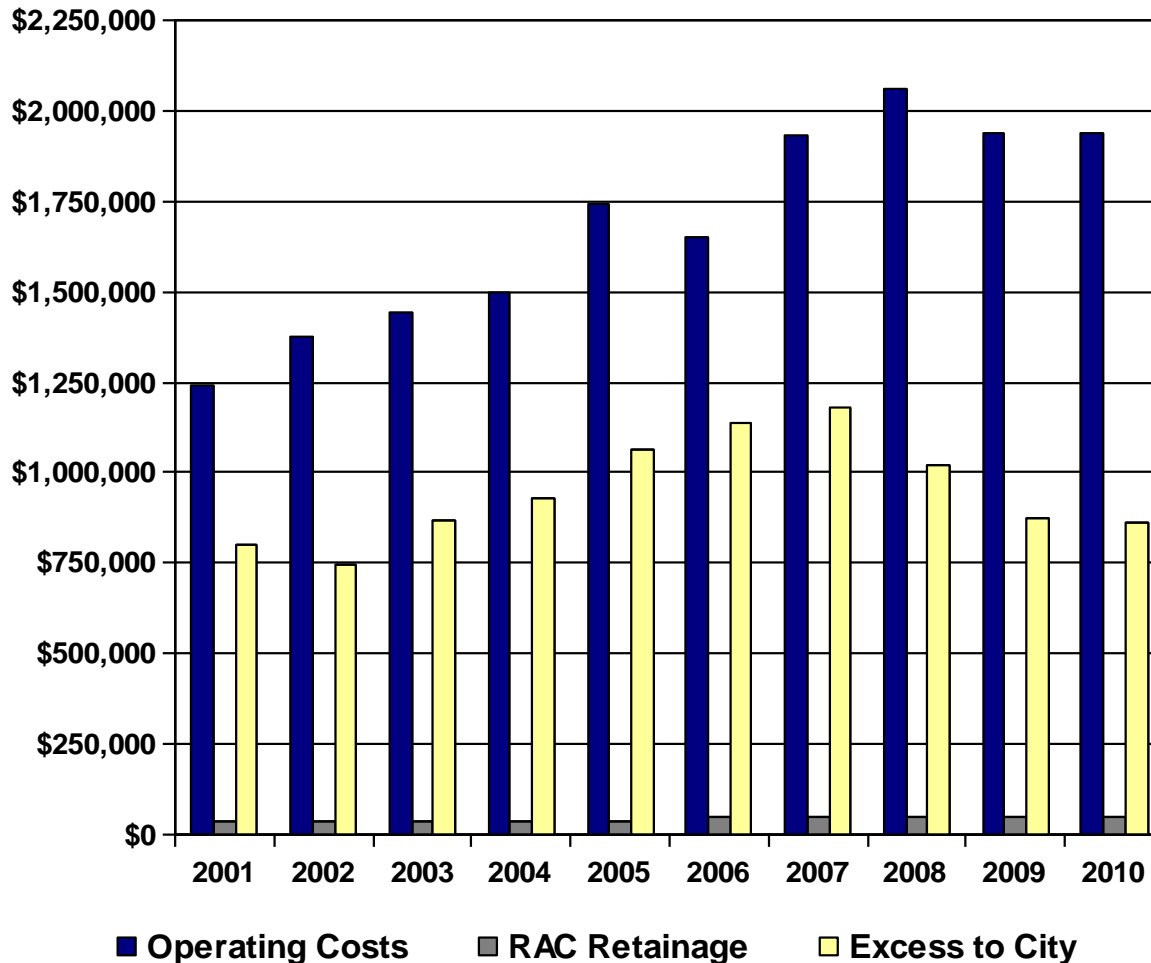
# Airport Operating Revenues



- Airport saw a decline of **\$78,741** in commissions and landing/loader fees in 2010
- Land and building rent continues to grow and is the 2<sup>nd</sup> largest source of revenue (**\$911,605** in 2010)
- Commission revenue generated primarily from:
  - **Parking lot**
  - **Car rentals**
  - **Fixed Base Operator**
- Airport operating revenues in 2010 totaled **\$2,848,295**

# Airport

## Operating Costs and Excess Revenues Reported by City's Agent, Rochester Airport Company



- Airport Company retains **\$50,000** annually (beginning in 2006), the remainder is remitted to City (**\$861,202** for 2010) and is set aside for future airport improvements
- Operating costs decreased **\$1,821** in 2010. Utilities, Depreciation, General & Admin costs decreased by **\$119,395**, while Salaries, Repairs and Equip costs increased by **\$117,574**

# Debt Service Funds

- **Tax Increment Bonds**
- **Airport Hangar Construction Notes**
- **Transportation Sales Tax Note of 2008**
- **Transportation Sales Tax Note of 2010**
- **Facility Energy Improvement Loan**
- **Economic Development Authority Bond**
- **Public Works and Transit Operation Center Bond**



# Debt Service Funds

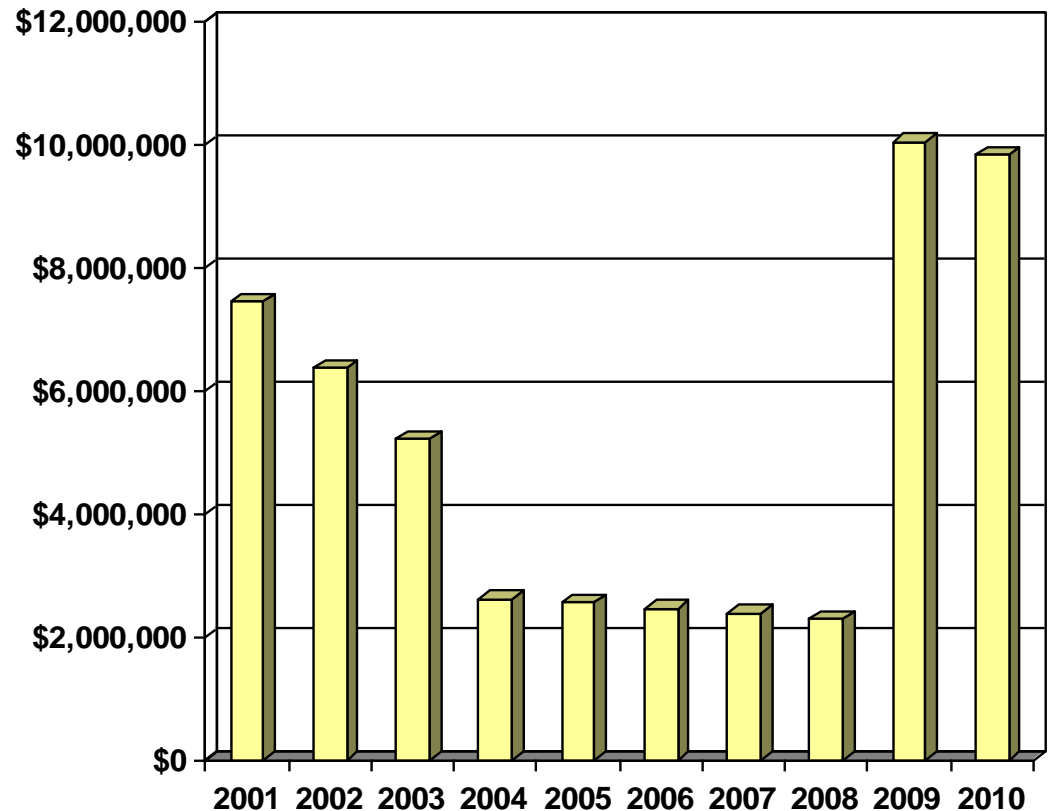
## Tax Increment

- **Tax Increment Bonds Outstanding**

– 2001	7,444,380
– 2002	6,358,611
– 2003	5,206,761
– 2004	2,603,879
– 2005	2,547,435
– 2006	2,465,264
– 2007	2,378,511
– 2008	2,286,921
– 2009	10,036,806
– 2010	9,841,721

- TIF Bond totaling **\$8,035,000** was issued in 2009 – will be repaid from Bio-Business Center tax increments and building lease revenues

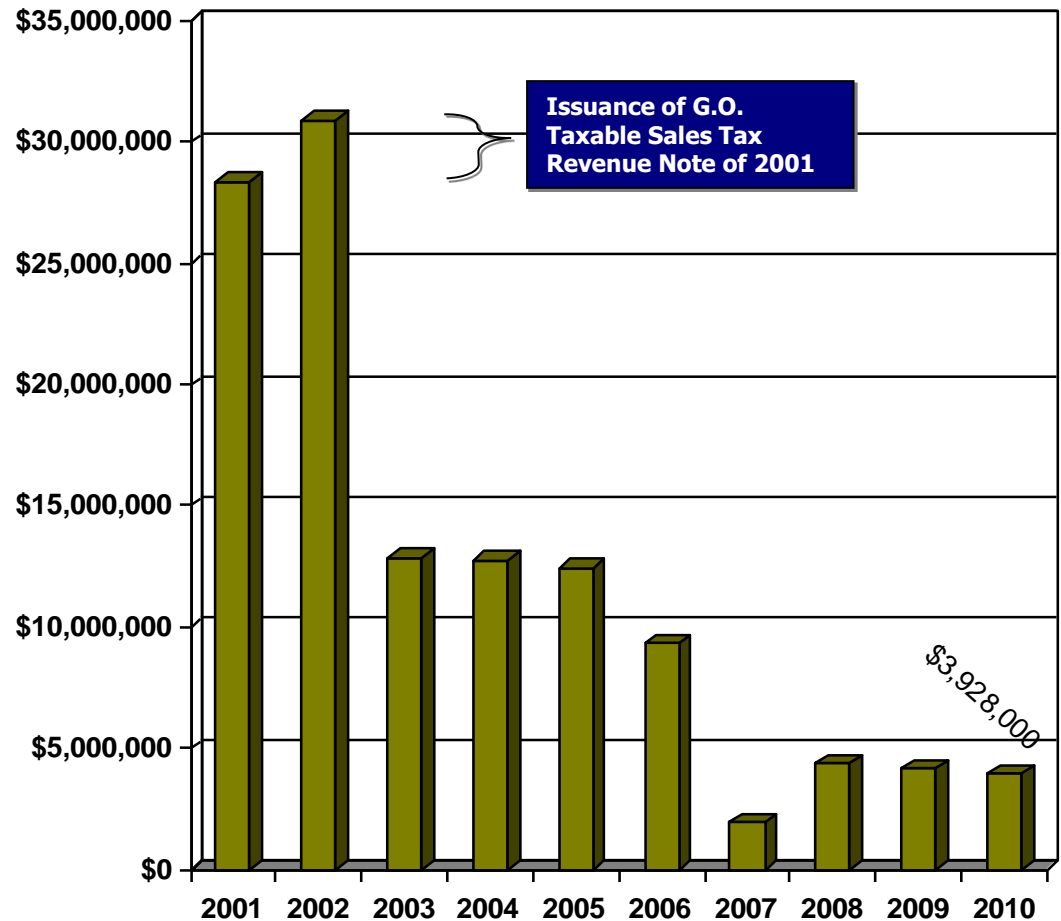
- Principal and interest paid in 2010 totaled **\$904,218**



# Debt Service Funds

## Sales Tax Revenue Bonds and Note

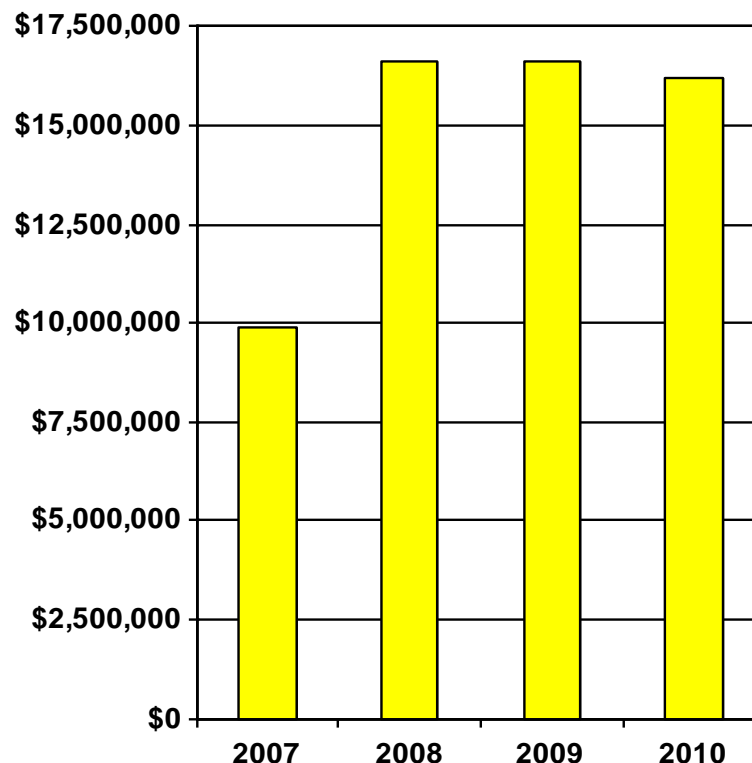
- Issued **\$2.5 million** of General Obligation Sales Tax Revenue Notes in 2008 to finance construction of transportation infrastructure improvements
- Taxable Sales Tax Revenue Bonds of 2000 - UCR **\$7,275,130** paid in full in 2007
- Temporary Sales Tax Revenue Bonds Series 2000A were retired in June 2003. Proceeds of these bonds used for:
  - Mayo Civic Center Expansion \$13.5 million
  - Water Quality Protection Program \$3.6 million
  - Highway 52 Project \$500,000
  - Debt Service Reserve \$350,000



# Debt Service Funds

## REDA Lease Revenue Bond

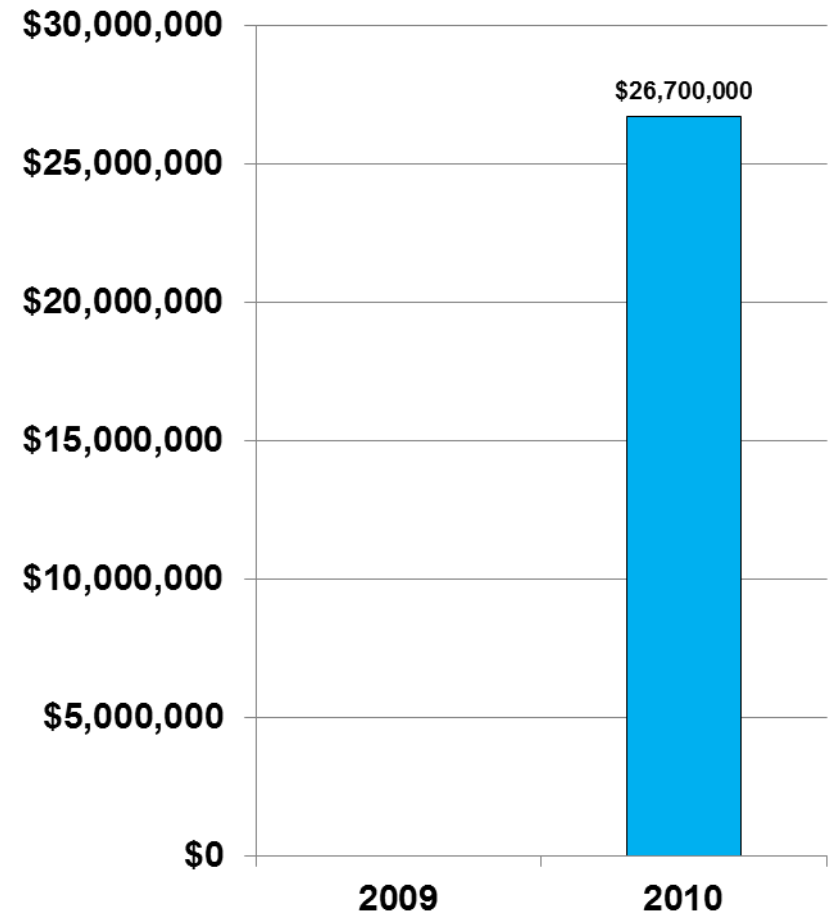
- **REDA Lease Revenue Bond Outstanding**
  - **2007 \$ 9,900,000**
  - **2008 16,600,000**
  - **2009 16,600,000**
  - **2010 16,215,000**
- **Bond payments will be funded by sublease rent payments from tenants of the Minnesota Bio Science Center**
- **Debt service on these bonds began in 2010**



# Debt Service Funds

## GO Taxable Build America Bond

- **GO Taxable Build America Bonds (Series 2010A) were issued in October 2010. Proceeds of these bonds used for:**
  - **Public Works Operations Center \$23.8 million**
  - **Transit Operations Center \$2.475 million**
  - **Fire Truck \$425,000**
- **A portion of the interest payable on these bonds is reimbursed through federal grants**

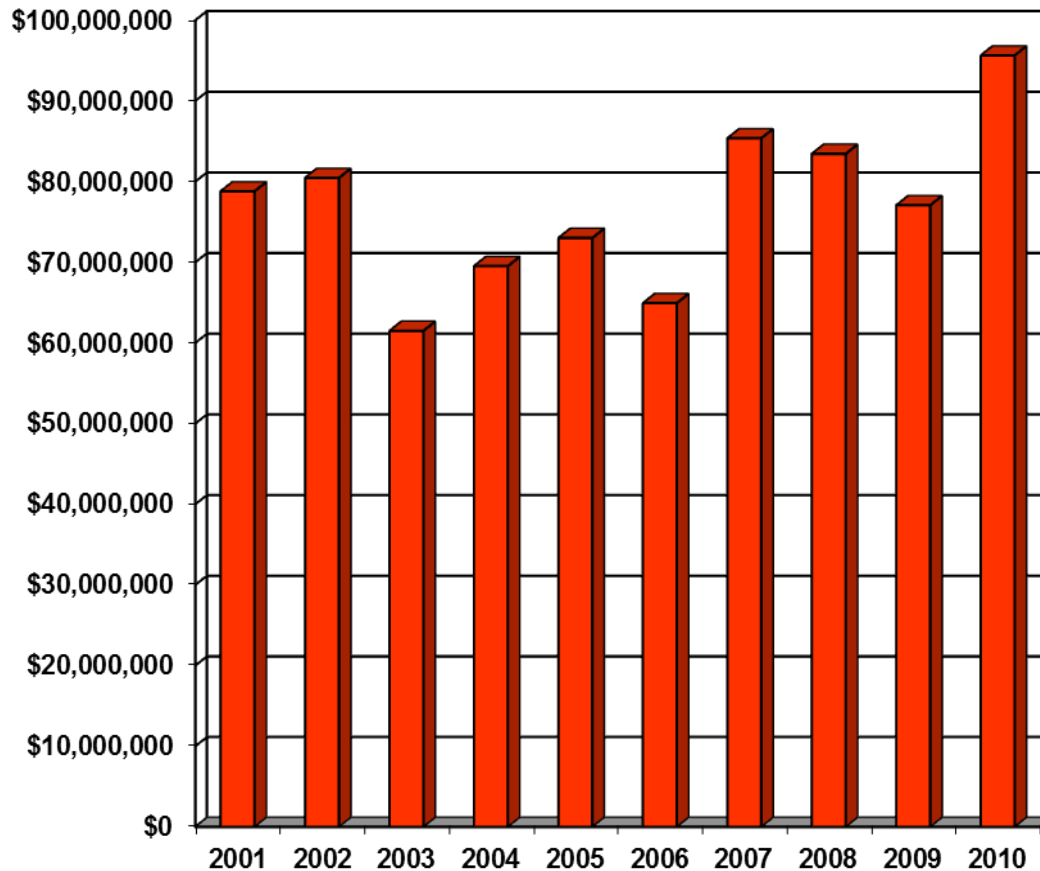


# Capital Projects Fund

- **Construction Improvement**

# Capital Projects

## Fund Balance

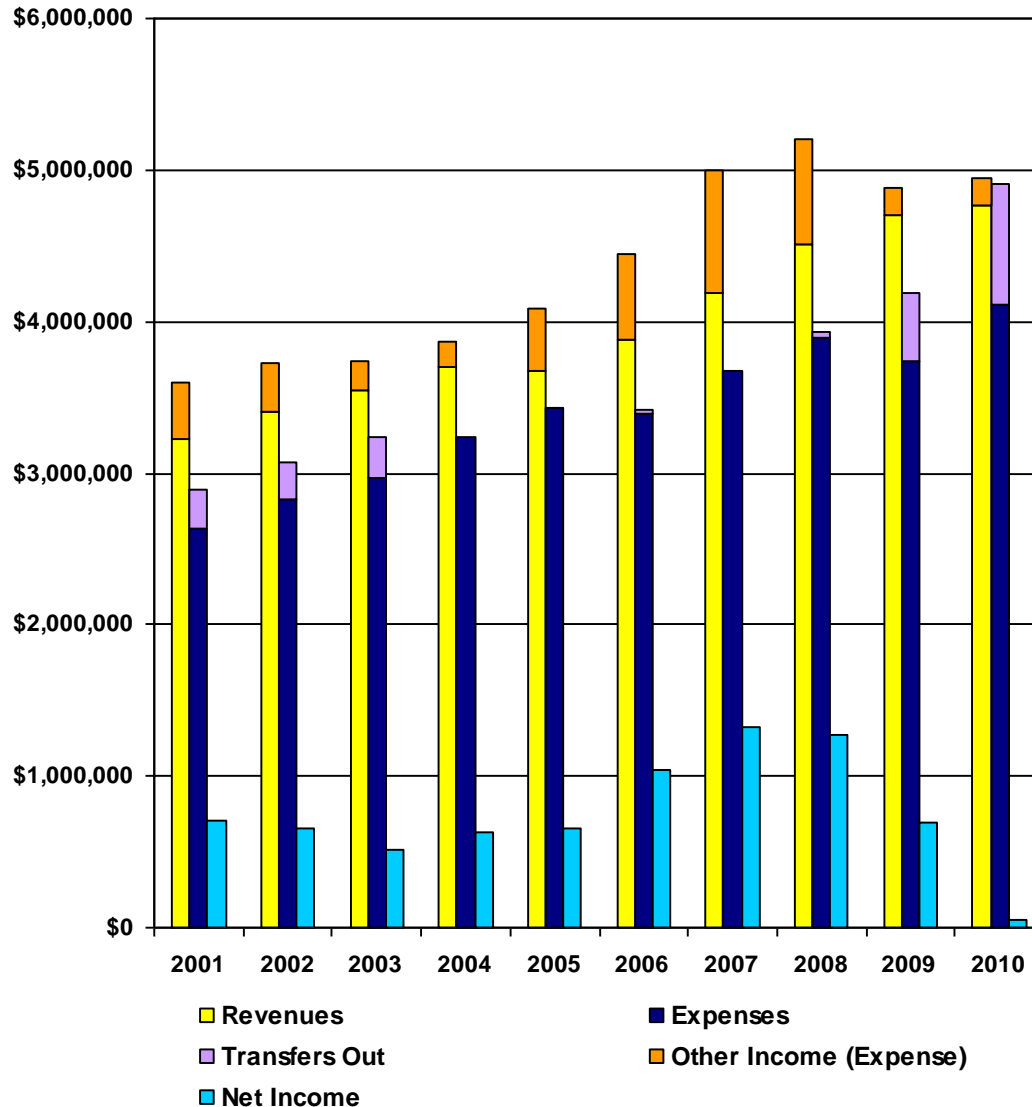


- Fund balance totaled **\$95,637,295** at 12/31/10 – Fund balance by Project Type is as follows:
  - Flood Control (\$23.3 Million)
  - Sewer and Water (\$9.1 Million)
  - Infrastructure Sales Tax Projects (\$11.5 Million)
  - Highways & Streets (\$16.3 Million)
  - Park & Recreation (\$3.2 Million)
  - Public Works Operations Center (\$10.8 Million)
  - Mass Transit (\$1.8 Million)
  - Tax Increment (\$3.1 Million)
  - Future Assessment Fund (\$6.5 Million)
  - Future Property Acquisition (\$2.8 Million)
  - Economic Development Loan Fund (\$2.0 Million)
  - Fire Station, Computer Upgrades, Airport, Future Construction & other misc. projects (\$5.2 Million)

# Enterprise Funds

- **Parking**
- **Electric Utility**
- **Water Utility**
- **Sewer Utility**
- **Storm Water Utility**

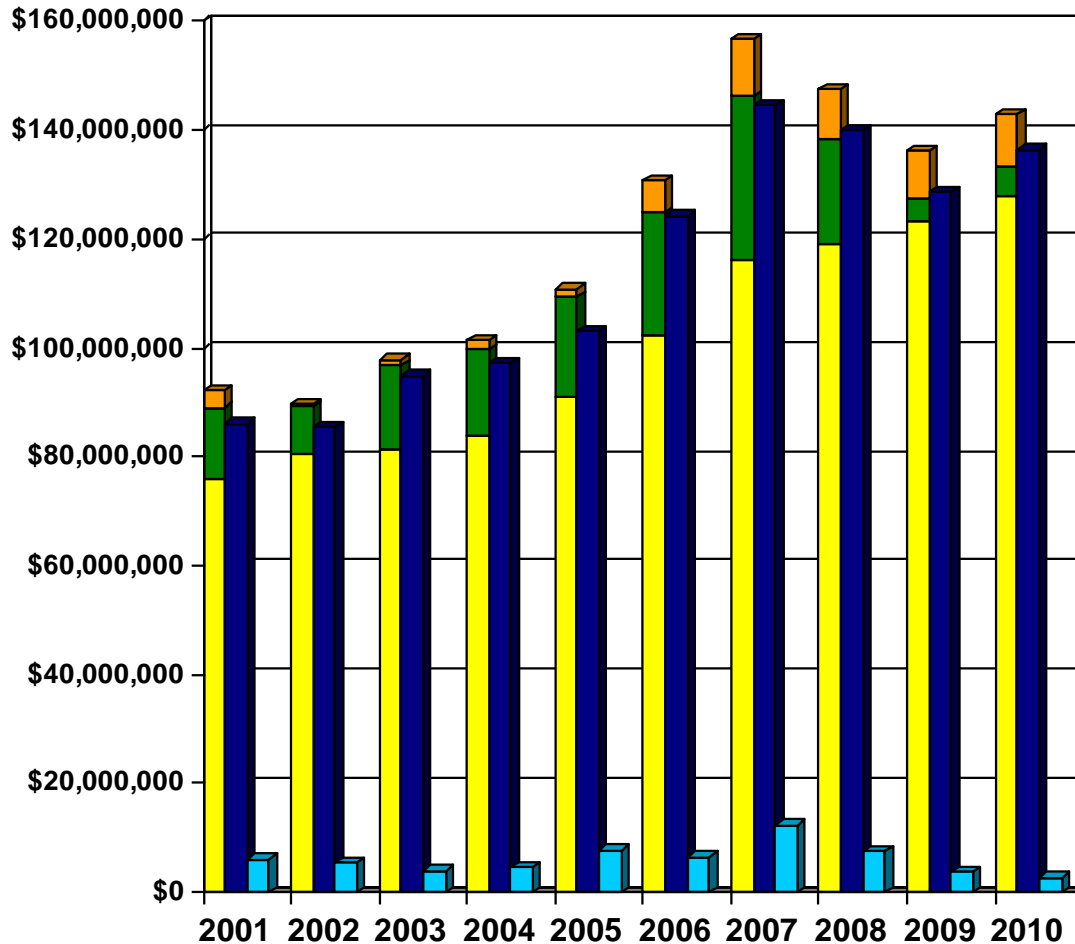
# Parking Fund



- In 2010, revenues from Ramps and Non-metered Lots increased by **\$138,171** and parking meter revenues increased by **\$22,623**, while other parking revenues declined by **\$98,652**
- Operating costs increased by **\$364,823** primarily due to professional services and depreciation expense.
- Net income before capital contributions in 2010 was **\$46,800** compared to **\$696,504** in 2009, primarily due to increases in depreciation (+\$78K), operating expenses (+\$286K), and transfers out (+\$355K).
- Unrestricted net assets at December 31, 2010 totaled **\$12.6 million**, of which **\$4.0 million** has been reserved for debt service
- Chart excludes capital contribution of **\$6,666,003** related to the 3<sup>rd</sup> Street Ramp.



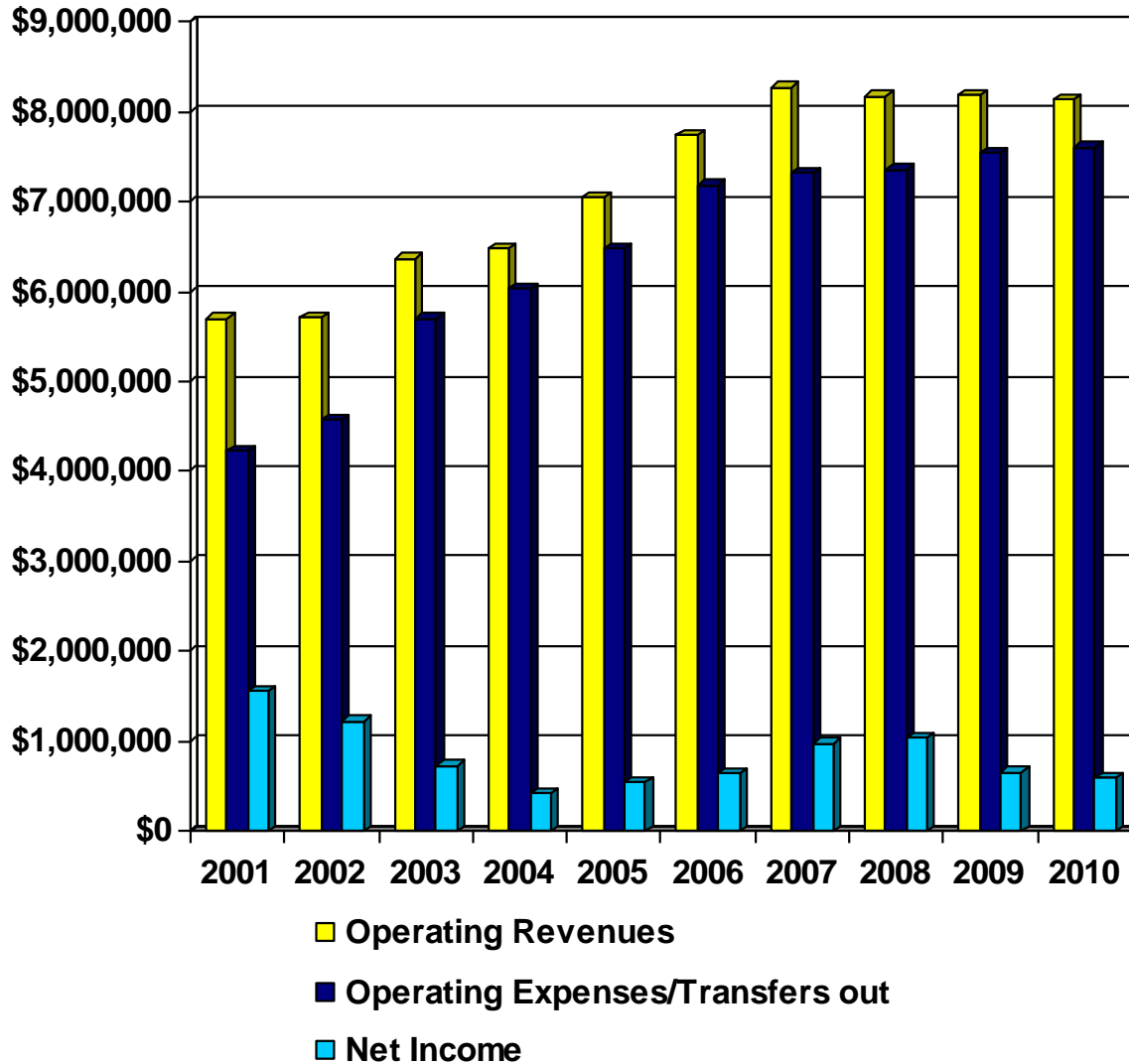
# Electric Utility (RPU)



- Retail Sales
- Wholesale Sales
- Steam Sales & Other Operating Revenues
- Expenses/Transfers out
- Net Income

- Electric revenue increased in 2010 due to:
  - Retail kilowatt sales increased **1.9%**
  - No Rate increase in 2010, after a **5%** increase in January 2009
  - **19%** increase in wholesale revenues
- Additional Electric Customers:
  - 2010 **544**
  - 2009 **268**
  - 2008 **453**
- Operating expenses have fluctuated primarily as the result of SMMPA purchased power rate increases and the changing volume of wholesale activity
- Revenue Bonds and Electric Utility Notes of **\$90,100,000** outstanding at 12/31/10
- Net Income totaled **\$2,670,040** in 2010 and **\$3,789,568** in 2009

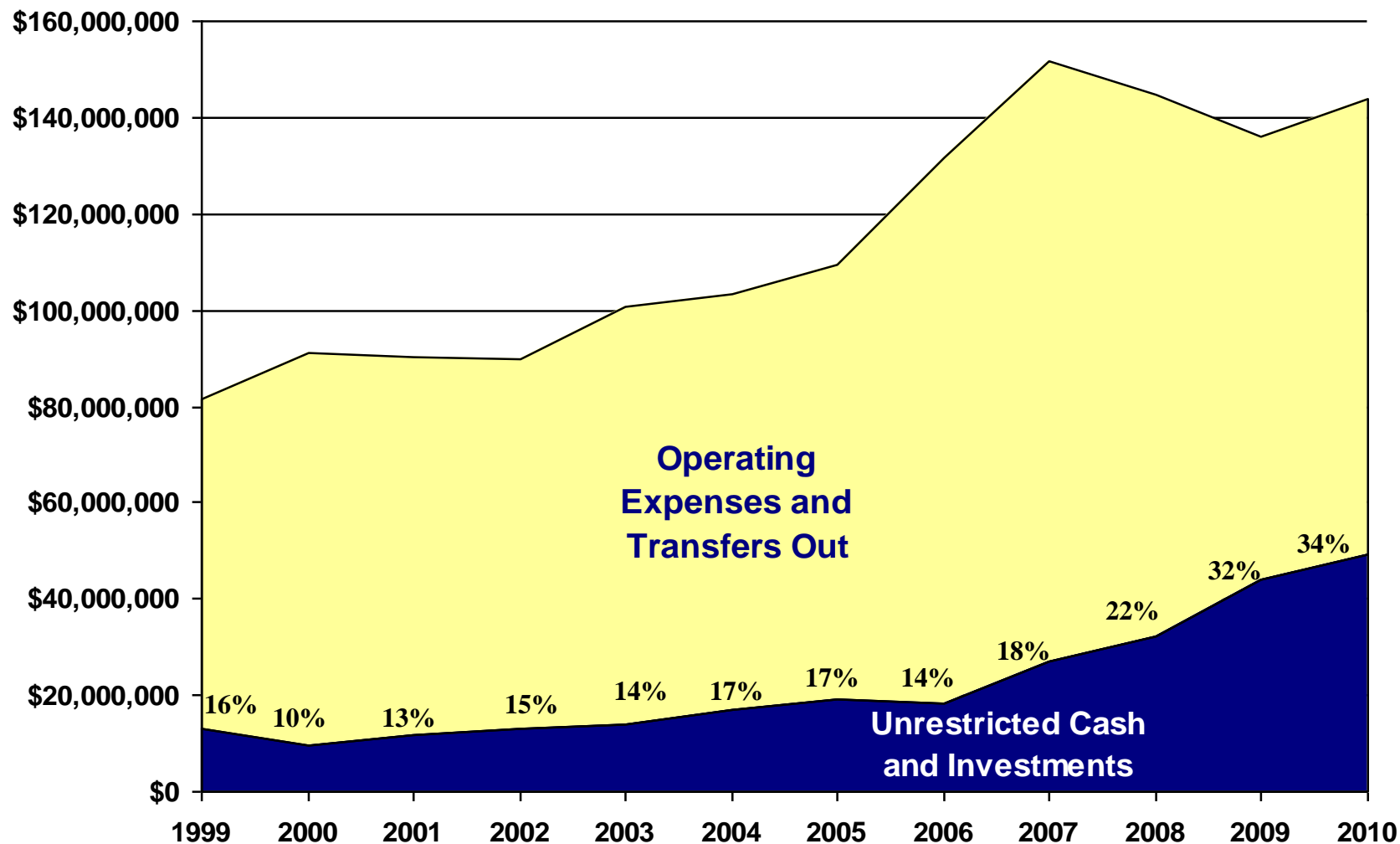
# Water Utility (RPU)



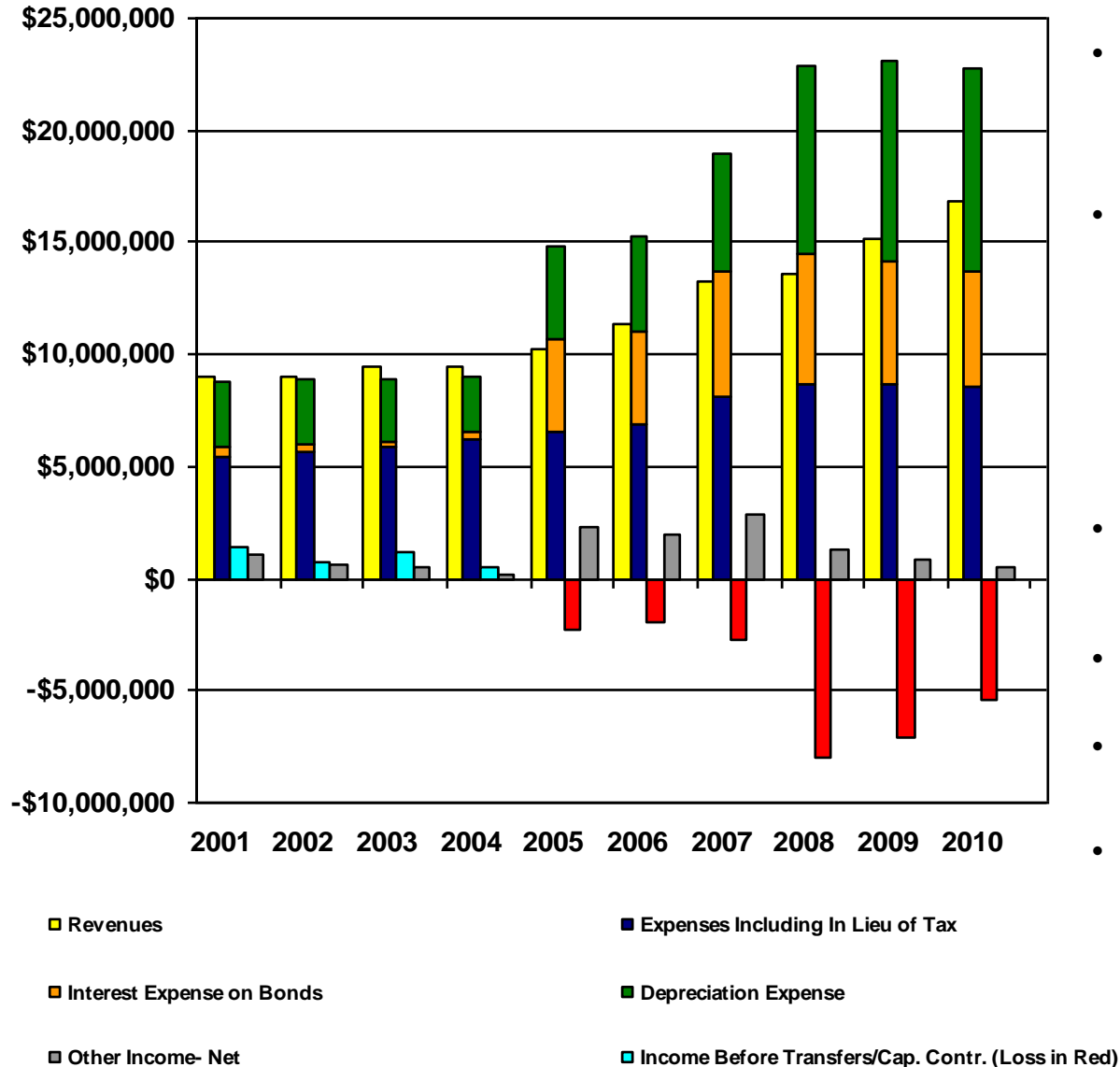
- Water conservation rates were implemented in 2010
- Water sales volume in 2010 declined by 4.6% - Revenue was down 3.1% as flat customer charge is not impacted by lower volume
- Additional Water Customers:
  - 2010 219
  - 2009 319
  - 2008 343
- Net income for 2010, as shown in the chart, of \$582,792 excludes 2010 capital contributions of \$2,909,926

# Electric and Water Utilities (RPU)

## Unrestricted Cash and Investments Reserves

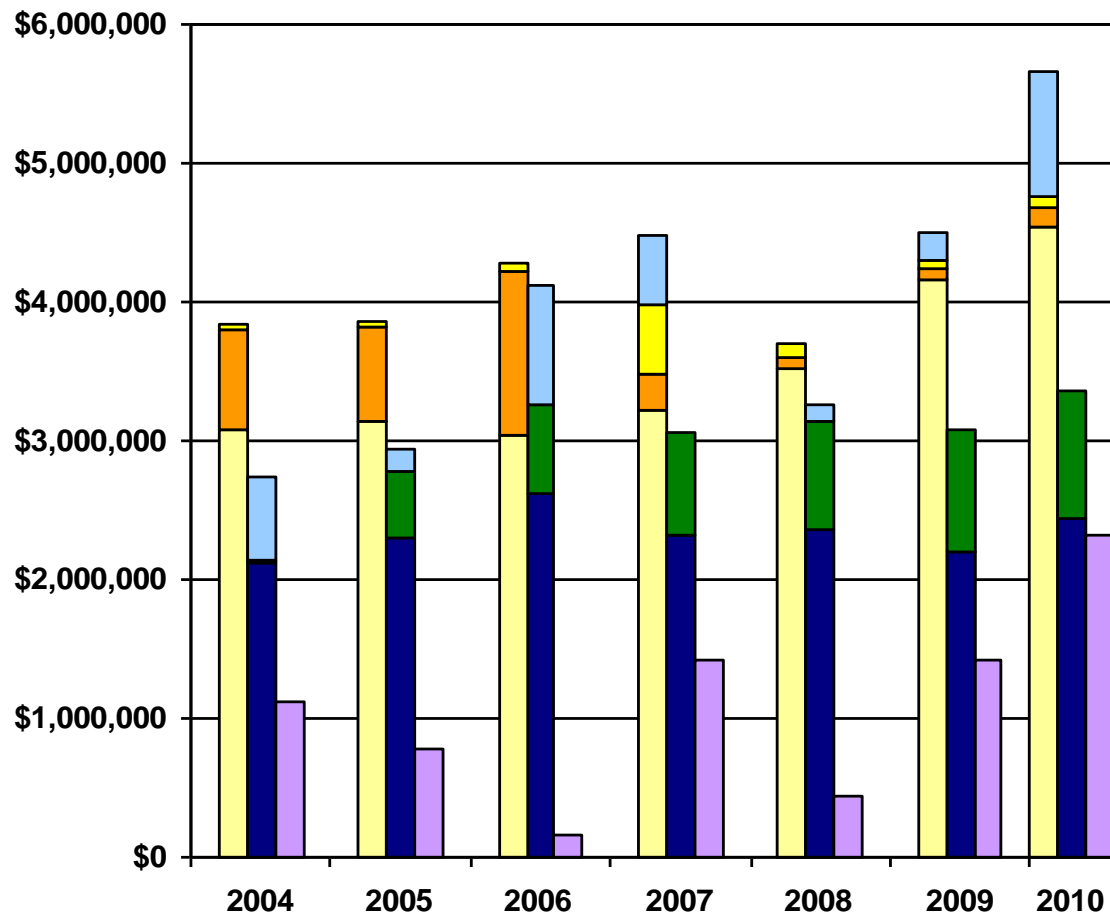


# Sewer Utility



- Based upon rate study, City has been increasing rates steadily since 2004
- Revenues from 2008-2010 have been lower than what was estimated when Sewer bonds were issued. Reasons for the lower revenues:
  - Slowdown in development
  - Reduction in flow per household
- Non-cash depreciation expense of **\$9.1million** in 2010 shown separately in chart in green.
- Interest expense of **\$5.1** million in 2010
- Sewer Bonds outstanding totaled **\$128,010,000** at 12/31/10
- Debt service payments are scheduled to increase annually

# Storm Water Utility



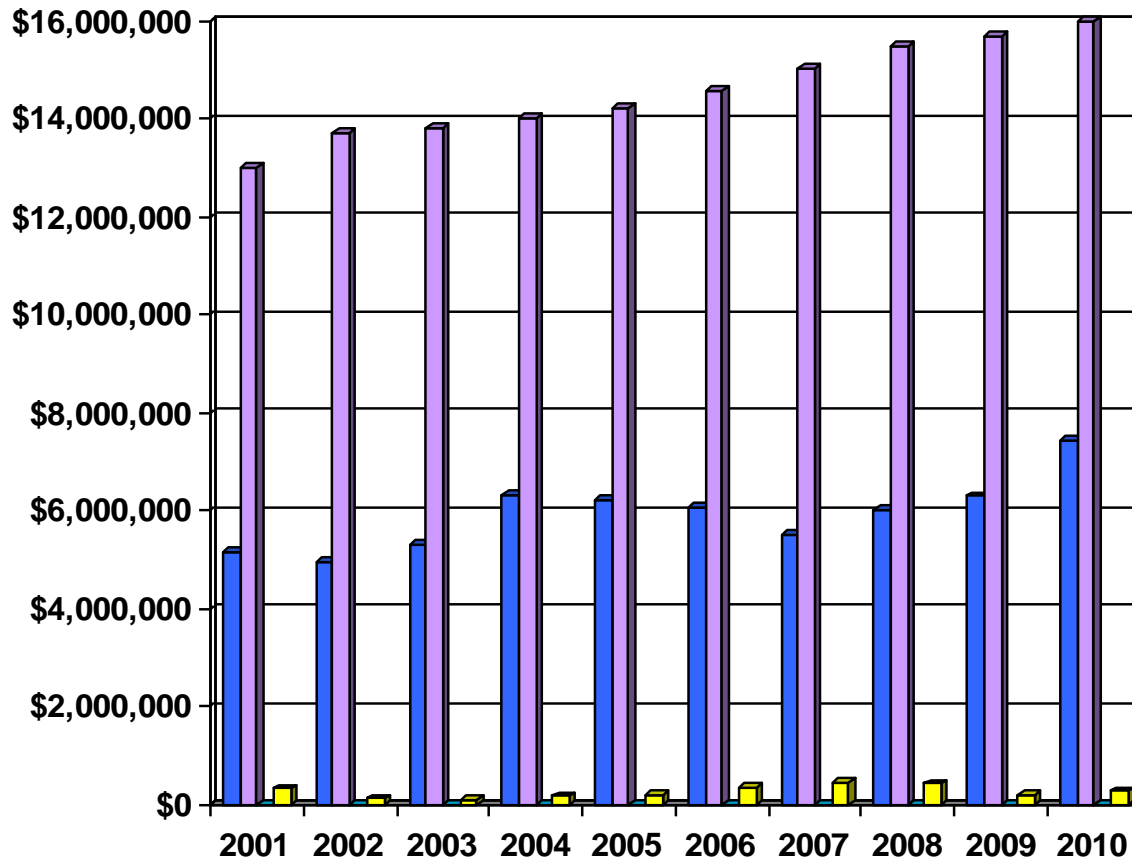
- Storm Water Fees
- Expenses Including In Lieu of Tax
- Other Revenue (Expenses) - Net
- Revenue from Developers
- Depreciation
- Transfers In (Out) - Net
- Net Income Before Capital Cont

- Net income, after transfers, increased to **\$2,315,970** in 2010 from **\$1,417,709** in 2009
- Increase in revenue due to Storm Water Utility Fee increase
- Operating excesses are being set aside to fund future storm water system improvements
- Net transfers in, of **\$536,178** in 2010 related to capital improvements (Compared to net transfers out, of **\$135,459** in 2009)
- Capital contributions of **\$1,815,853** for 2010 are not included in the chart
- Storm Water Unrestricted Fund Balance at 12/31/10 was **\$1,228,585**

# Internal Service Funds

- **Equipment Revolving**
- **Information Technology Revolving**
- **Self-Insurance**

# Equipment Revolving Fund



■ Cash and Investments

■ Total Net Assets

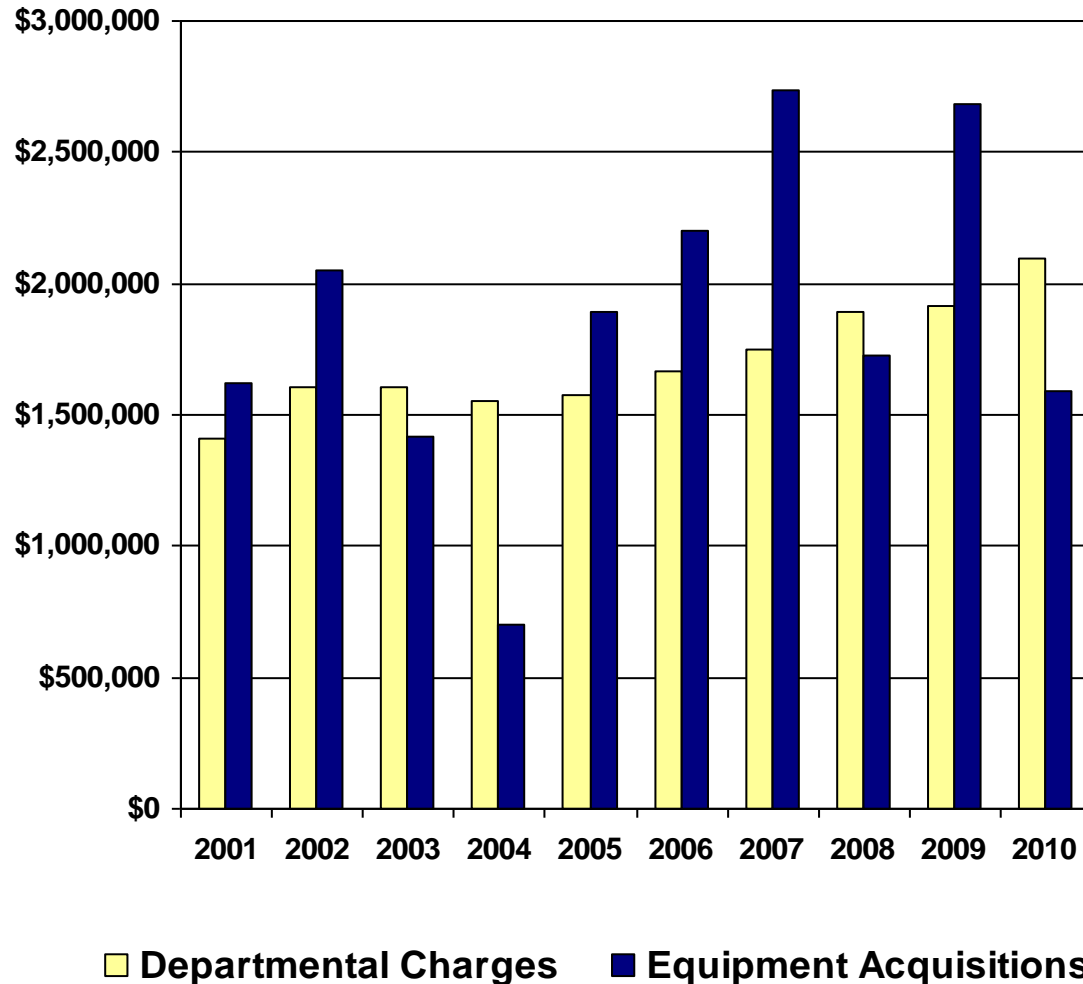
■ Operating Income

■ Net Income

- **Total Assets consist of:**
  - Cash and Investments  
\$7.4 Million
  - Net Capital Assets of  
\$9.7 Million
- **Fund operates at breakeven, net income generally results from investment return**

# Equipment Revolving Fund

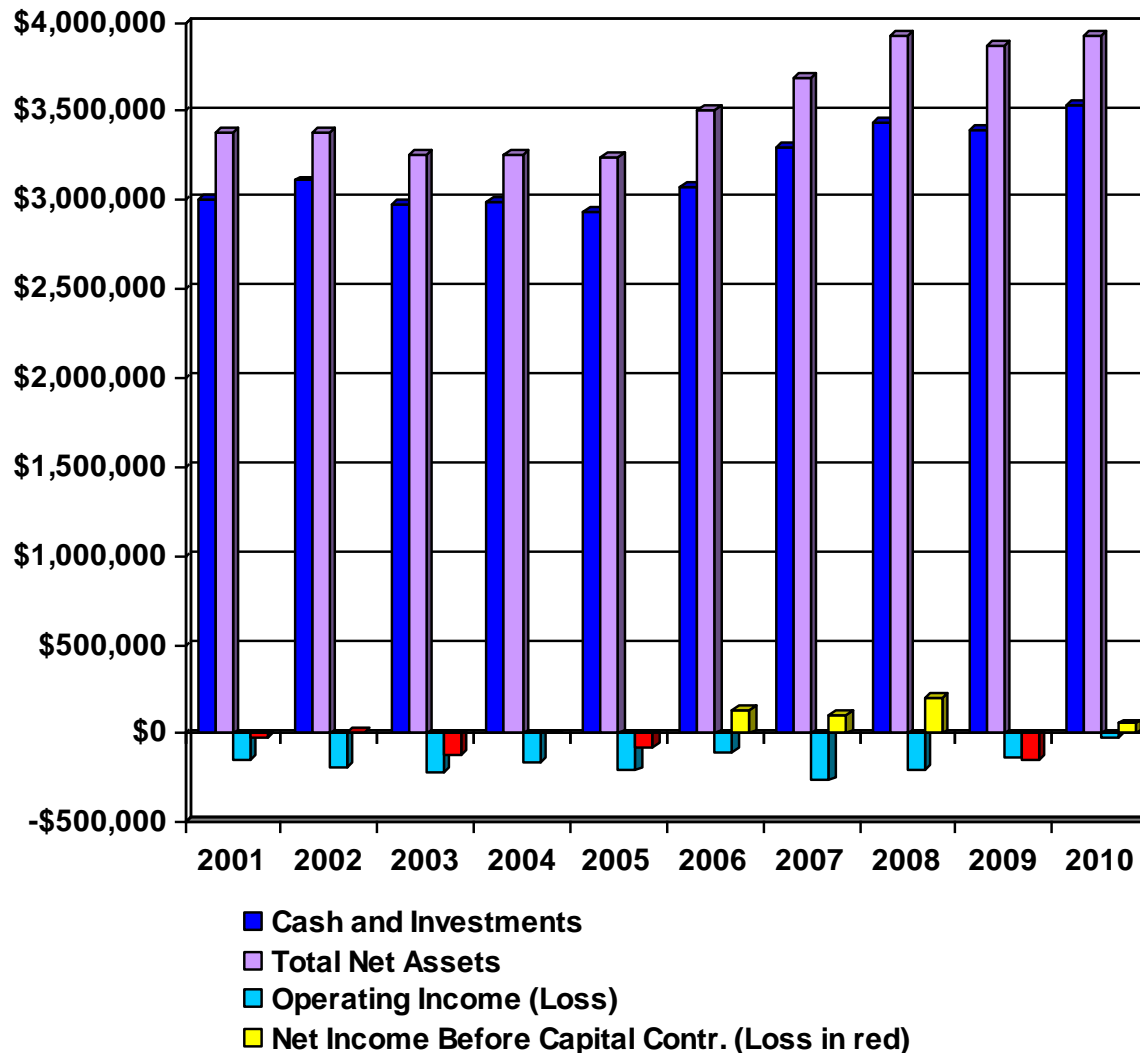
## Departmental Charges & Equipment Acquisitions



- Cash reserves and related interest earnings allows for:
  - Stable departmental charges
  - Interest income to supplement departmental charges as source of funding for acquisitions
- 2010 Equipment acquisitions totaled \$1,592,380 and included:
  - 8 Police vehicles - \$210,627
  - 2 SUVs - \$81,519
  - 1 Fire engine - \$406,353
  - Street and Alley equipment:
    - 3 Dump trucks – \$360,754
    - 2 Pickups - \$84,468
    - 1 Street sweeper - \$163,669
    - 1 SUV - \$36,347
    - 2 Vans - \$60,745



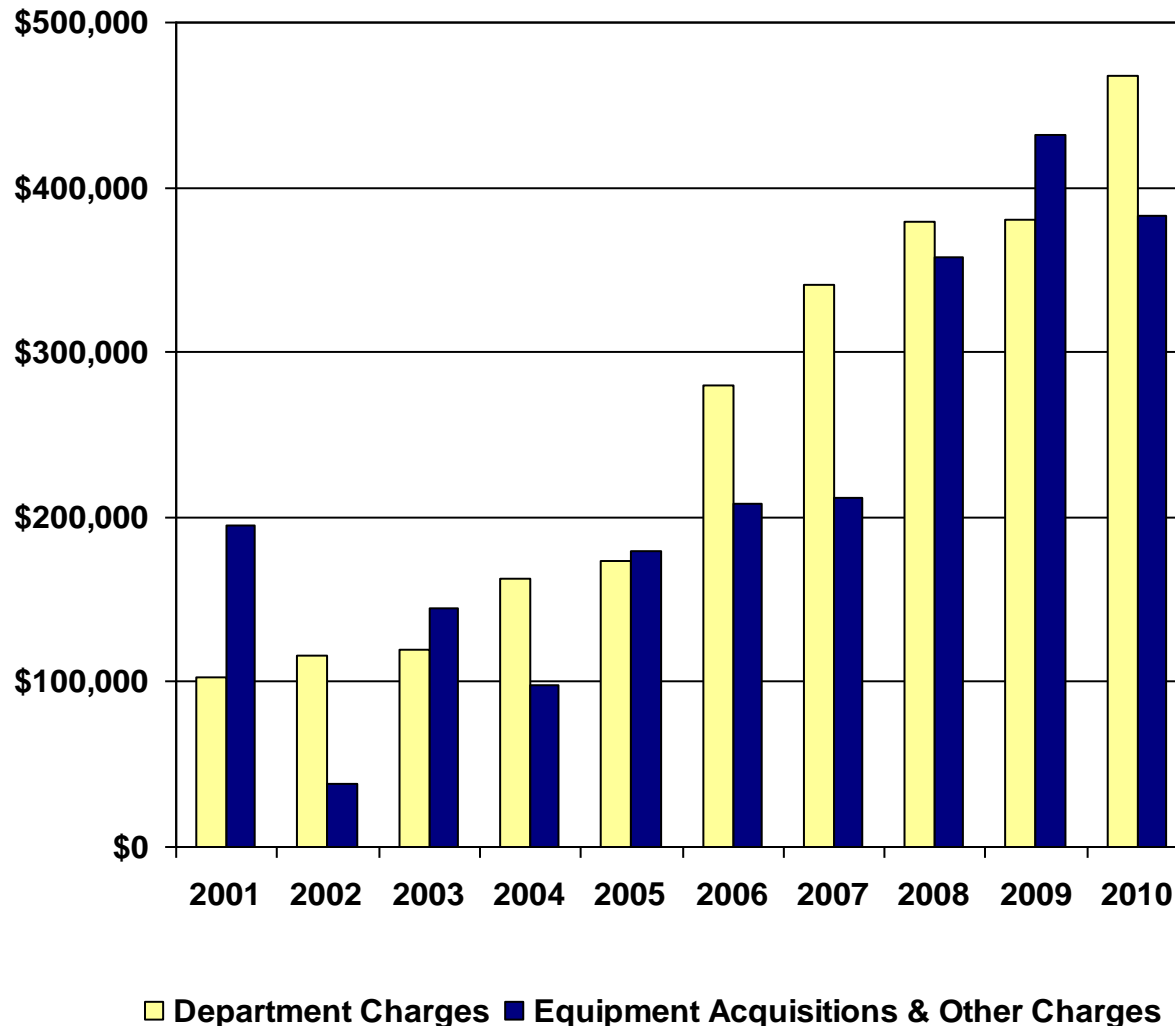
# Information Technology Revolving Fund



- Total Assets consist of:
  - Cash and Investments \$3.5 Million
  - Net Capital Assets of \$365,498

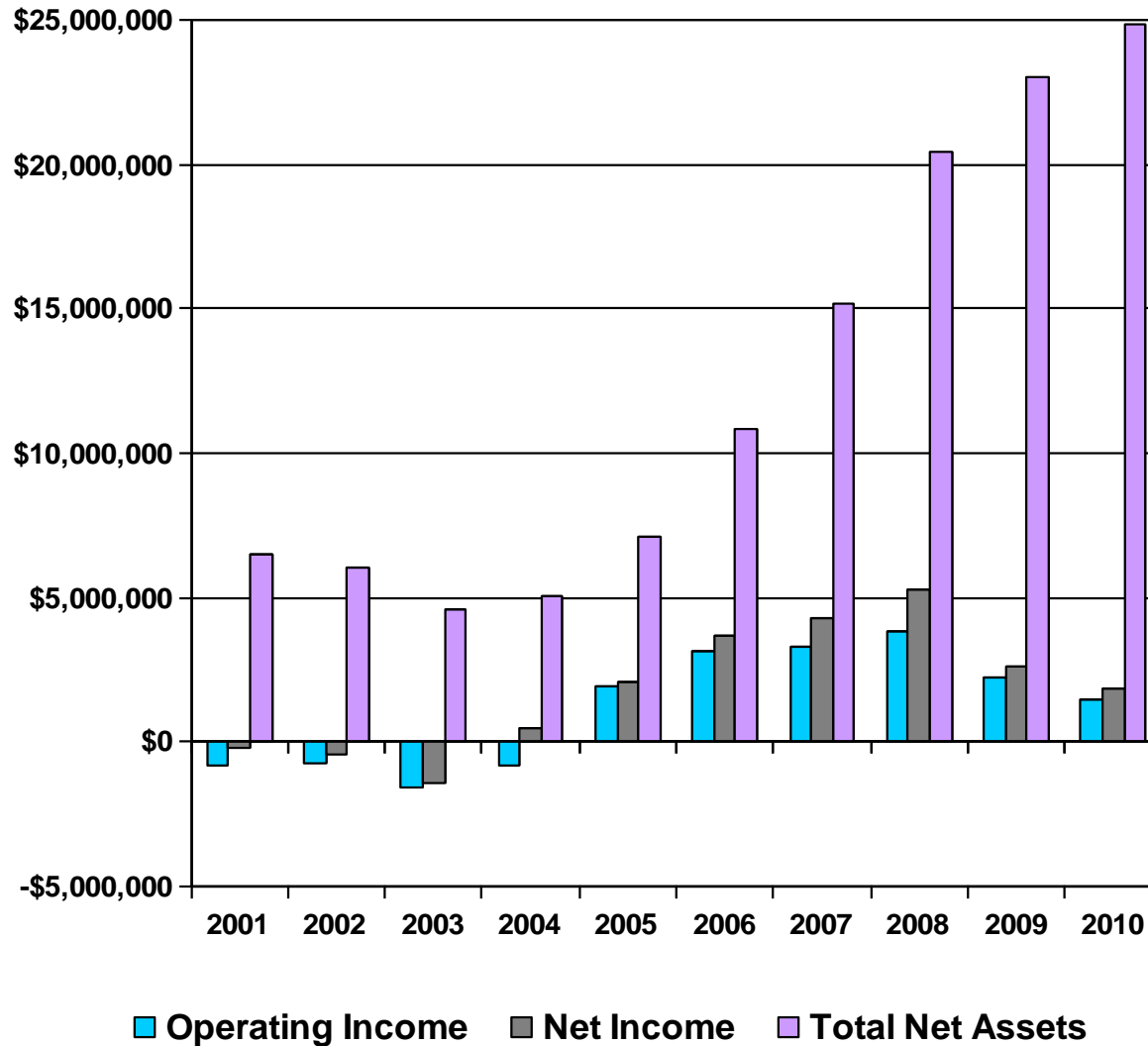
# Information Technology Revolving Fund

## Department Charges & Equipment Acquisitions



- Cash reserves and related interest earnings allows for:
  - Stable departmental charges
  - Interest income to supplement departmental charges as source of funding for acquisitions
- Significant 2010 Additions:
  - Computer, Storage and Switches – \$89,605
- Other charges consisting of maintenance agreements, software licenses and other professional and contracted services amounting to \$155,137 in 2010 and \$144,916 in 2009

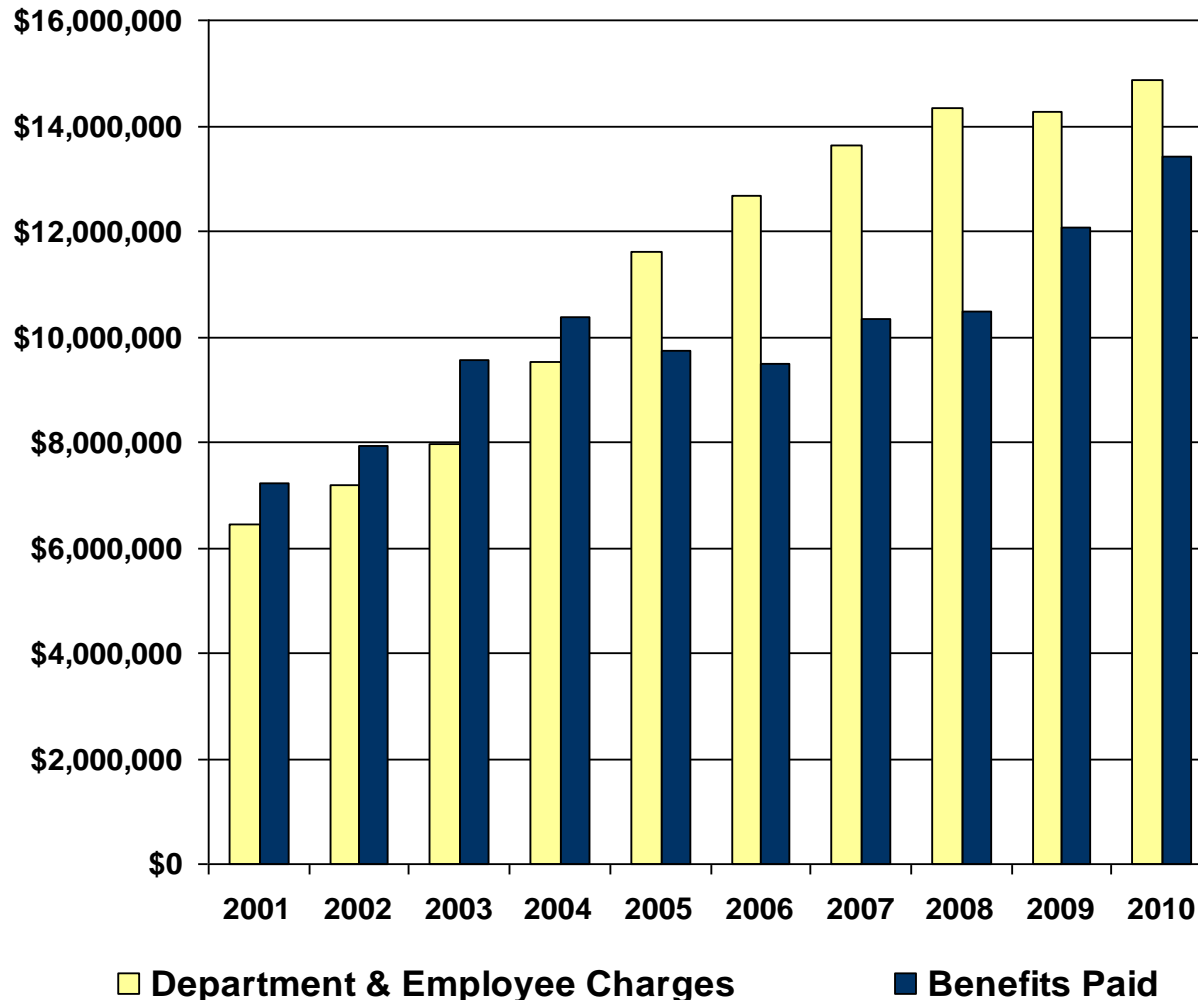
# Self-Insurance Fund



- Total Net Assets at December 31, 2010 of **\$24,852,318** represents the City's reserve against Self-Insurance risk for:
  - Deductible Property Loss
  - Medical and Dental Claims
  - Workers Compensation Claims
- Net income in 2010 was **\$1,857,595** (down from 2009's net income of \$2,589,204) due to higher medical claims
- Departmental medical charges were not changed for 2009 and 2010. Charges increased by **3%** in 2011.
- Departmental dental charges were increased by **9%** for 2009 and did not change in 2010. Charges increased by **3%** in 2011.

# Self-Insurance Fund

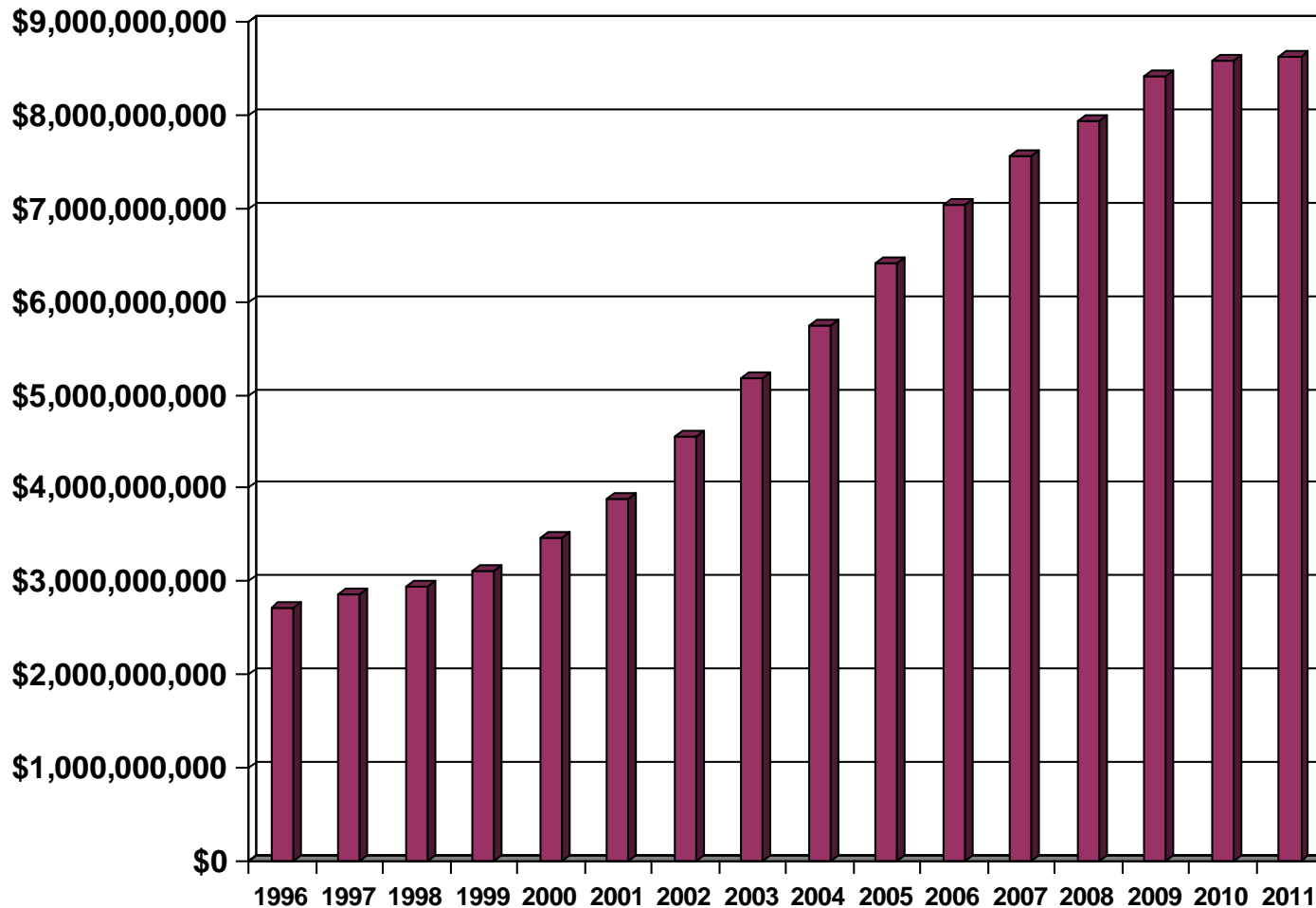
## Departmental/Employee Charges & Benefits Paid



- Departmental and employee charges are used to pay health insurance claims
- Interest earnings on reserves are used to supplement departmental and employee charges
- Departmental medical charges have increased annually as follows:
  - 2010 - %
  - 2009 - %
  - 2008 5%
  - 2007 9%
  - 2006 12%
  - 2005 35%
  - 2004 25%
  - 2003 10%
  - 2002 15%
  - 2001 15%

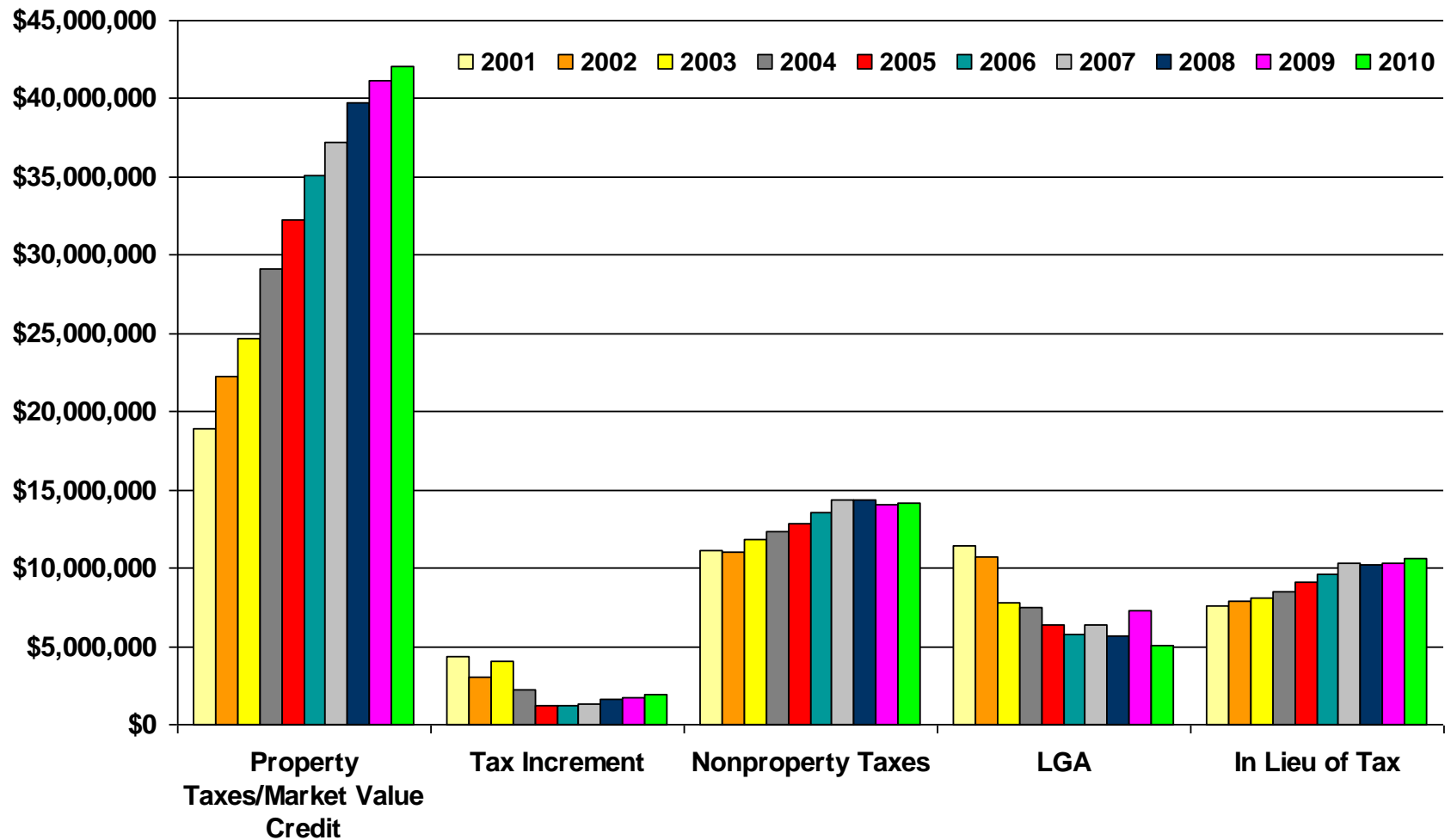
# Estimated Market Value

## Real and Personal Property

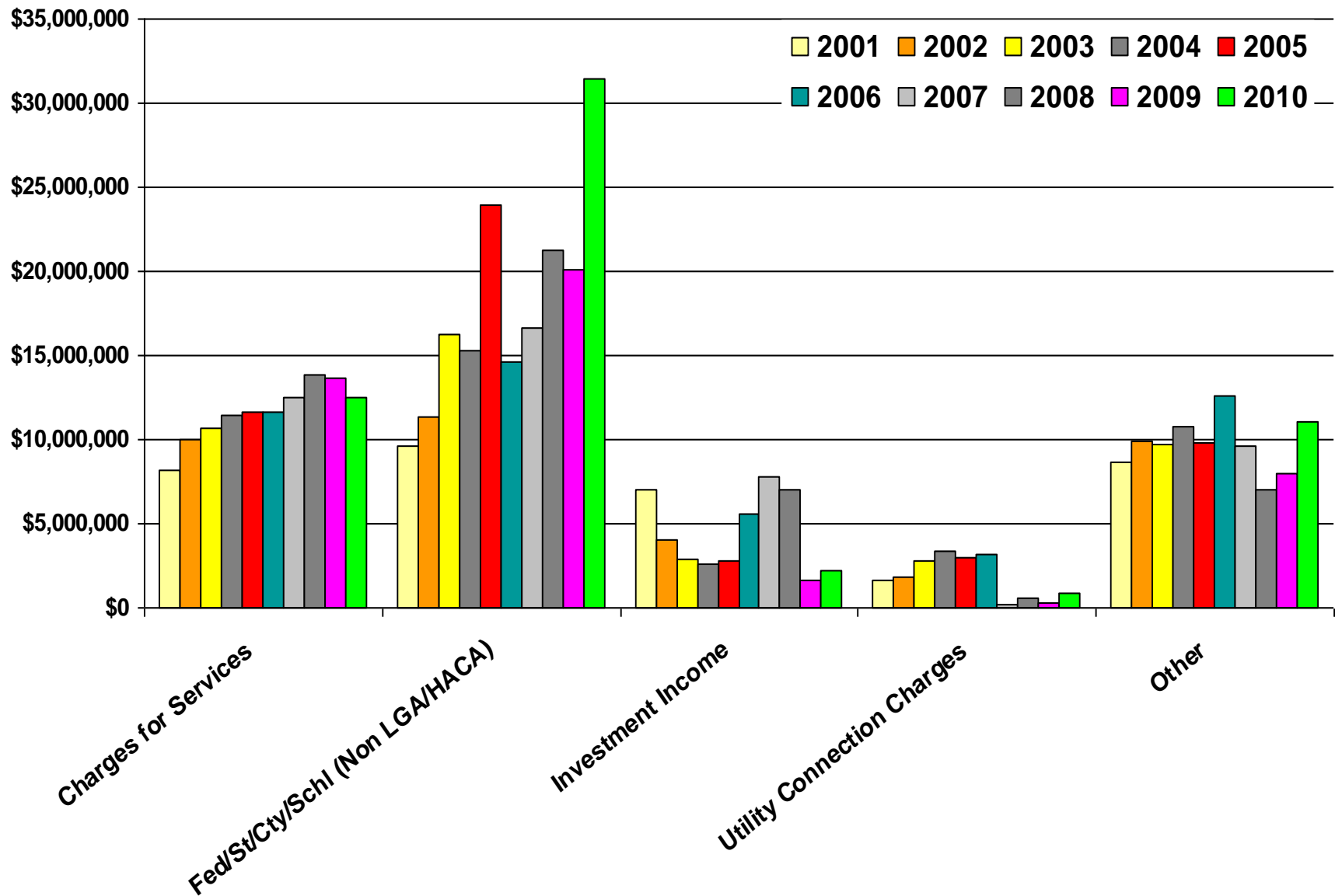


- *Estimated Market Value for 2011 is **\$8.6 Billion**, up **\$29 Million** or **.34%** from 2010*

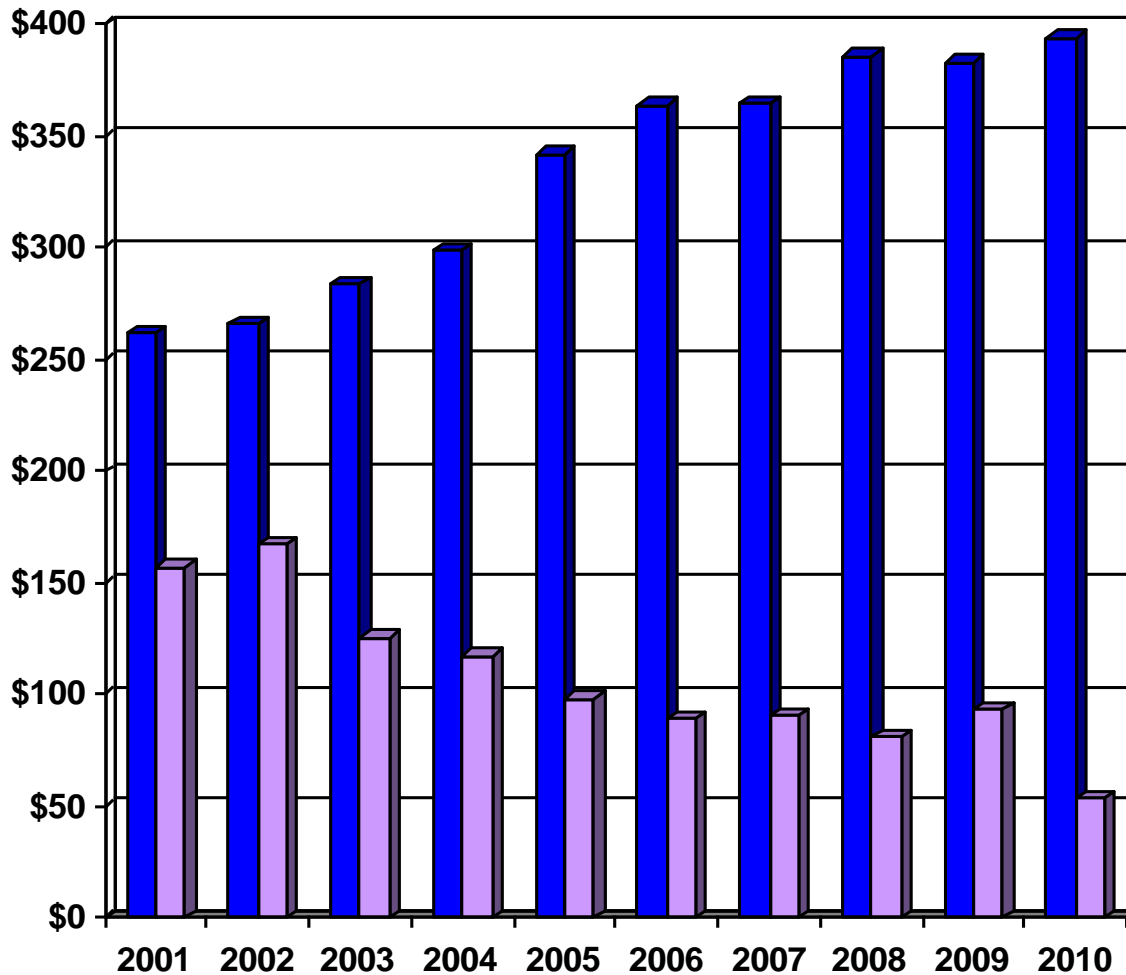
# Governmental Funds - All Revenues



# Governmental Funds - All Revenues



# Property Taxes, LGA, HACA & Market Value Credit (Per Capita, Inflation Adjusted)

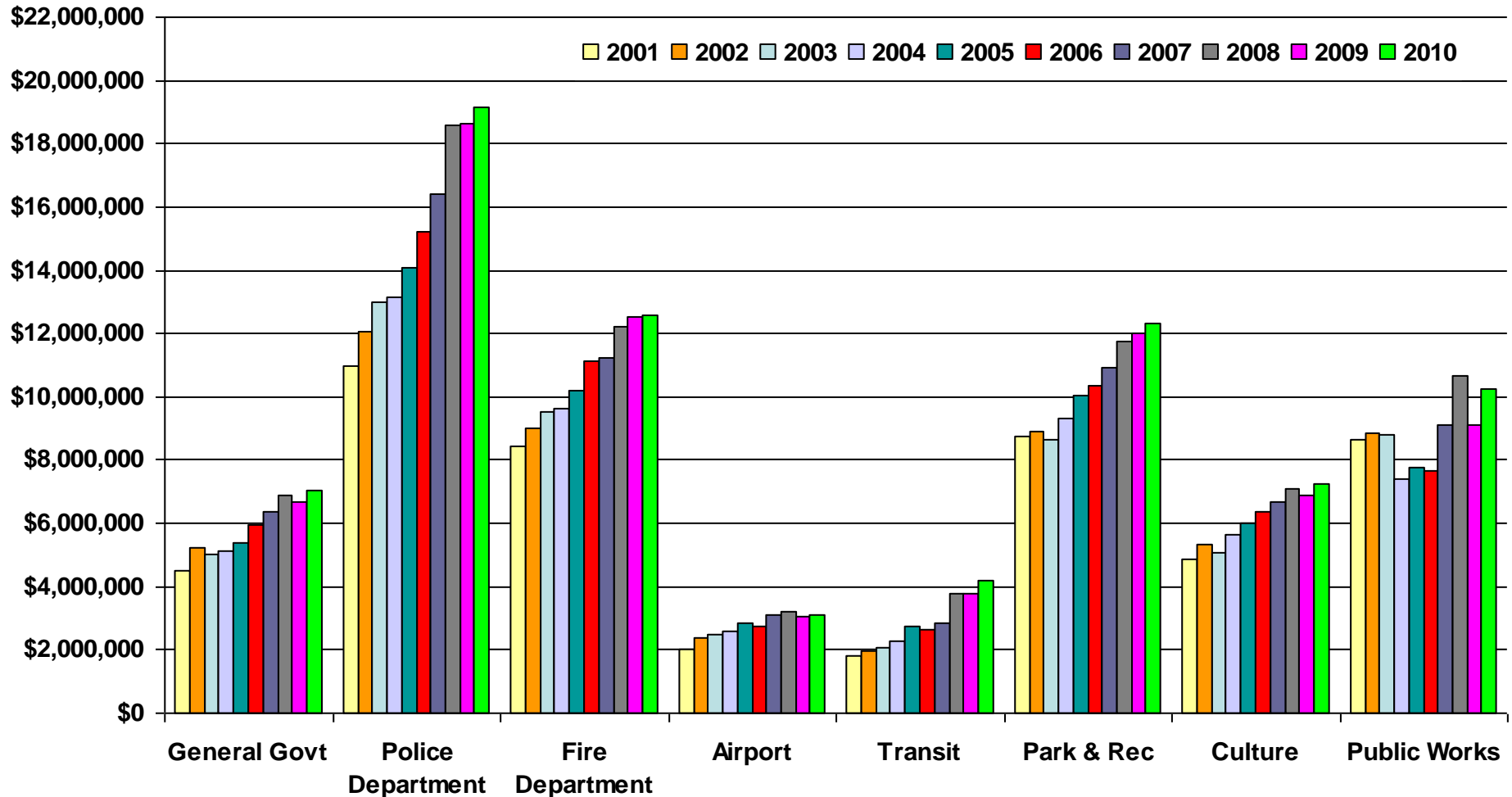


- **Per Capita Property Taxes  
(Excluding Market Value Credit)**
  - 2001 \$262
  - 2005 342
  - 2010 394
- **Per Capita LGA/HACA/Market Value Credit**
  - 2001 \$157
  - 2005 98
  - 2010 53
- **Per Capita Total of Property Taxes,  
LGA/HACA/Market Value Credit**
  - 2001 \$419
  - 2005 440
  - 2010 447
- **Population**
  - 2001 88,858
  - 2005 97,191
  - 2010 106,769

■ Property Taxes    ■ LGA/HACA/Market Value Credit



# Governmental Funds - All Expenditures (Excluding Capital Outlay and Debt Service)



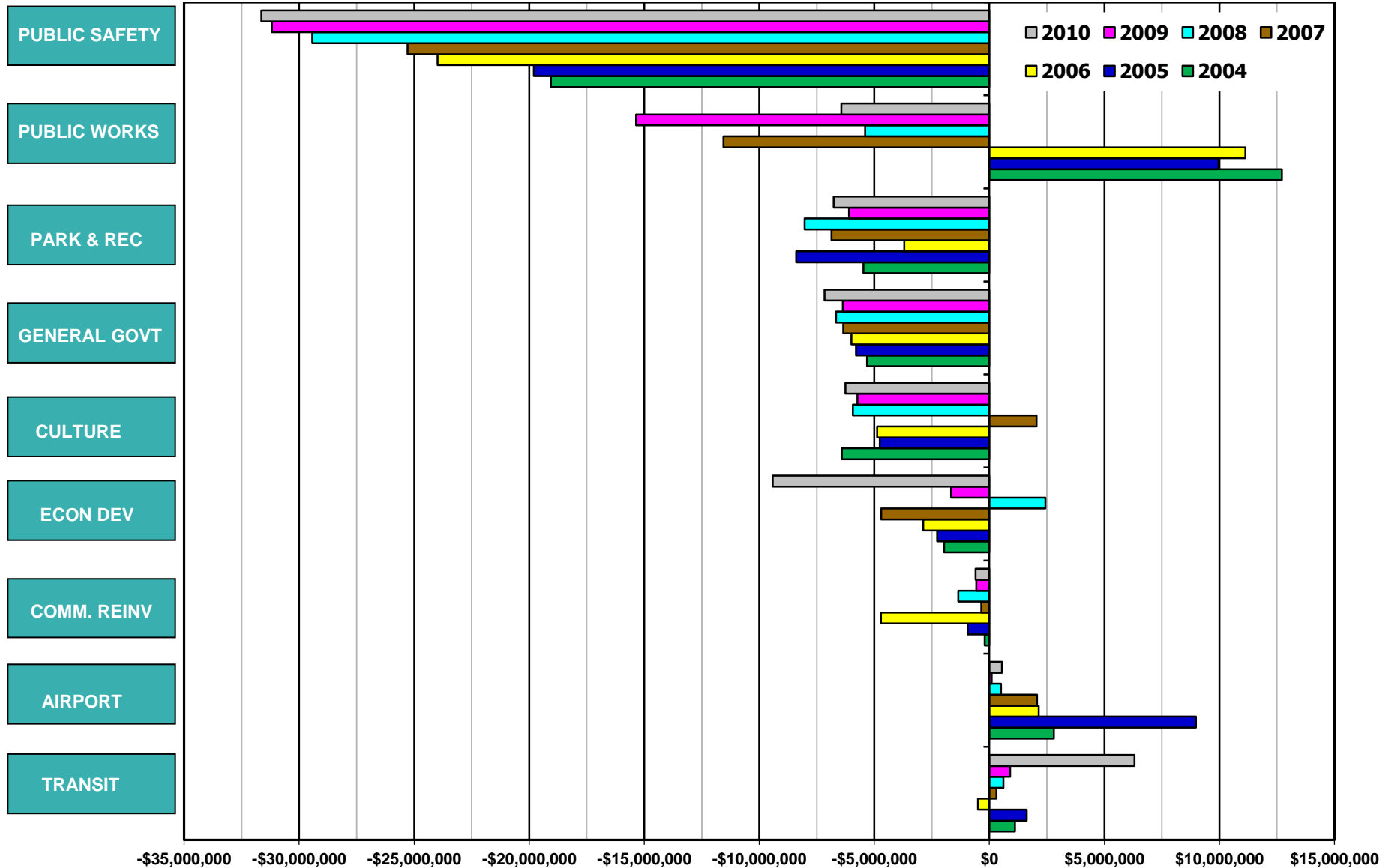
# Government-Wide Financial Statements

- **Consists of:**
  - **Statement of Net Assets**
  - **Statement of Activities**
- **Utilizes accrual basis of accounting and requires capitalization and depreciation of all property and equipment and recognition of all long term liabilities**

**CITY OF ROCHESTER, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2010  
With Comparative Totals for the Year Ended December 31, 2009

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Governmental Activities</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
Governmental activities:					
General government	\$ 7,689,602	\$ 512,005	\$ 15,747	\$	\$ (7,161,850)
Public safety	38,566,296	4,769,132	1,870,318	283,771	(31,643,075)
Public works	24,596,491	234,659	152,336	17,775,363	(6,434,133)
Airport	6,881,982	2,982,614	1,154,290	3,291,751	546,673
Transit	4,885,878	664,888	3,628,926	6,897,923	6,305,859
Culture	8,045,420	323,655	1,454,991	11,562	(6,255,212)
Park and recreation	15,952,230	6,744,988	2,174,106	271,154	(6,761,982)
Economic development/tourism	13,054,890	62,446	1,729,218	1,841,671	(9,421,555)
Community reinvestment/unallocated	599,580				(599,580)
Interest on long-term debt	1,824,346				(1,824,346)
Total governmental activities	122,096,715	16,294,387	12,179,932	30,373,195	(63,249,201)
General revenues:					
General property taxes					41,711,795
Tax increments collection					1,943,050
Sales tax					9,346,574
Nonproperty taxes					4,833,173
Grants and contributions not restricted to specific programs					5,489,944
Interest earnings					4,082,540
Gain on disposition of property					61,681
Net increase (decrease) in the fair value of investments					(1,294,764)
Miscellaneous					545,128
Transfers					3,251,868
Total general revenues and transfers					69,970,989
Change in net assets					6,721,788
Net assets - beginning					628,246,749
Net assets - ending					\$ 634,968,537

# Net Revenue (Expense) By Function



# Summary

- General Fund reserves at 39.6% of annual expenditures
- Library Fund Reserves at 29% and Municipal Recreation Fund Reserves at 18% of 2010 expenditures
- State Funding (Local Gov't Aid and Market Value Credits) decreased \$3.3M from 2009 to 2010.
- Airport Company remitted \$861,202 to the City which was set aside for future airport improvements
- Primarily funding governmental capital improvements by issuing \$26.7 Million in Build America Bonds for the Public Works & Transit Operations Center and a Fire Truck
- Electric and Sewer Utilities servicing \$219 Million in bonds with future access charges and user fees
- Sewer rate increases have allowed the Sewer Fund to service outstanding Sewer Bonds despite lower than expected usage and a slowdown in development
- As benefit payments continue to rise, the City with either have to increase Departmental Insurance Charges or utilize Self-Insurance Fund balance